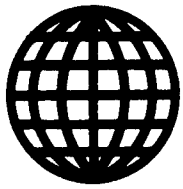


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11 MAY 1989



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GENERAL

Asian Intellectuals Debate Role of Confucianism on Economic Development

40050307 Hong Kong LIAOWANG OVERSEAS
EDITION in Chinese No 6-7, 6, 13 Feb 89 pp 45-46

[Article by Zhang Kexi 1728 0668 0823: "Does Confucian Thought Promote Modern Economic Development?"]

[Text](Editor's Note: The Conference of East Asian Intellectuals inquired into the promotion of East Asian culture and other issues. With regard to the issue of the relationship between Confucian thought and modern economic development, two completely different opinions emerged at the conference.)

Tokyo Special Dispatch: The rapid economic development of the East Asian region has aroused the interest of various nations of the world. Against this background, the Japan Economic Research Institute sponsored a "Conference of East Asian Intellectuals" in Tokyo in December of last year. Scholars of the nations of the Chinese cultural circle, including China, Japan, Taiwan, South Korea, Hong Kong, and Vietnam, each aired their views and probed traditional Eastern culture, particularly the influence of Confucian thought on modern economic development.

Promoting East Asian Culture

Li Shenzhi [2621 1957 0037], vice president of the Chinese Academy of Social Sciences, made the keynote address at the conference, entitled "Promoting East Asian Culture." He stated that during the past more than 100 years of mutual encounters and turmoil between Eastern and Western culture, there has emerged the view that Western culture is superior to Eastern culture. From this has emerged a trend of thought toward emulation of the West, "overall Westernization," or "forsaking Asia for Europe," negation of traditional Eastern culture, and even utter pessimism about Eastern culture to the extent of detesting and rejecting it. However, for more than 100 years there have been a number of Eastern nations that have developed comparatively rapidly in the course of learning from the West, and these are, above all, nations and regions with very deep roots in traditional Eastern culture, or more precisely, traditional Chinese culture. Thus, Chinese culture is suddenly regarded as a culture capable of promoting economic development, and has therefore received serious attention and praise. The Asian people, who had been regarded in the past as unskilled in scientific thinking, have been proved not only to have produced many great inventions and made technical achievements of a very high order in ancient times, but also to have produced a large number of scientific talents and results in the present day as well.

Li Shenzhi stated that there is an opinion prevalent in the world today that East Asians educated and nurtured on the ideas of "respecting work and enjoying company" and "knowing distinctly what is justice and what is profit" are among the world's most capable managers and strongest competitors in business. Therefore, it evidently cannot be said that, due to the existence of traditional East Asian culture, science and democracy cannot be transplanted in East Asia, only that they must undergo a process of serious, difficult adjustment and adaptation. Therefore, East Asians are rediscovering new value in their own culture. China's current objective is modernization. We not only must seek a point of convergence at which both Western and Eastern culture can be used to develop the economy, we must also set forth even higher objectives. The West, which claims to have achieved modernization first, can by no means shake off various material and spiritual crises. With respect to these, some East Asian scholars have suggested that traditional East Asian culture may be able to provide solutions. Li stated that pioneers in the field of probing East Asian culture have already shaken off the sense of failure and inferiority which had weighed on the minds of the East Asian people for the past 100 years, and that they have already discovered wisdom hidden in the depths of the age-old East Asian culture which enables them to free themselves and to excel. Promotion of East Asian culture should go through a long process of probing and elimination, refinement and expansion, education and enlightenment, and development and popularization. Promotion of East Asian culture not only means promotion of the East Asian region and people themselves; it will also make an enormous contribution to the entire world and mankind as a whole.

The Nature of Confucian Culture Is Suited to Modern Economic Development

Kim Il Gon [6855 2480 0981], director of the Institute of Japanese Issues at South Korea's Pusan University, stated in his speech, based on South Korea's practice of development, that "what has made possible the economic development of the East Asian nations is Confucianism, which, alone of the three major religions (Taoism, Buddhism, and Confucianism), involves the principle of social organization." He stated that the following points are regarded as factors in the promotion of economic development by the Confucian centralized order:

1. Enthusiasm for Education and High Educational Level. This is a very important difference between the East Asian cultural circle and other cultural circles.
2. A Dynamic System. The Confucian cultural circle is made up of centralized states which preserve collectivist culture and uphold a hierarchy formed from such theories as loyalty and filial piety. Therefore, when the government advances correct objectives and policies for developing the economy and the people are stimulated to spontaneously participate in economic development,

this dynamic system goes into action. That is to say, when the entire nation wants to achieve identical objectives, it has the high efficiency of collective action.

3. A Plan-Guided Mixed Economic System. In Asia's newly industrialized countries and regions, the governments have become direct economic developers, formulating economic plans and then bringing out the economic capability of private enterprise. Under these circumstances, the role of governments under the traditional centralized system differs from that of other cultural circles in that governments have the role of providing centralized guidance over bringing into play the abilities of each individual and the capability of economic units.

4. Outstanding Social Groupings Formed by the Collectivist Culture. Originally, collectivist culture attached more importance to the collective than to the individual. Therefore, in the Confucian cultural circle, once there is a major situation, it is very easy to elicit a consensus of popular opinion or understanding. Additionally, in management and labor-capital relations, compared with the antagonistic relations in individualistic society, it is easier to preserve harmonious relations.

5. The attitude toward labor, too, is very different from that of the United States and the nations of Europe. The view formerly taken in these nations was that labor implies suffering. Within the East Asian cultural circle, on the other hand, due to the influence of Buddhism, a form of education and indoctrination has been implemented whose starting point is unselfish altruism for the benefit of the people and the state, or in abstract terms, society and mankind. Therefore, the East Asian cultural circle differs from U.S. and European society with respect to its enthusiasm for labor or its obligations or sensibilities with regard to society, which have led to manufacture of high-quality products.

Kim Il Gon believes that "even though collectivist interpersonal relations of mutual aid and coexistence that stress obligation, human feelings, and morality appear to have certain irrational aspects, they should not necessarily be eliminated. With respect to the East Asian cultural circle, it should on the one hand utilize the newly accepted foreign cultural system, but, at the same time, an extremely important problem is how to carry on outstanding cultural traditions.

Economic Development Is by No Means a Product of Confucianism

Scholars such as Lin Ming-Te [2651 2494 1795], a researcher in the Institute of Modern History of Taiwan's Academia Sinica, Chen Qinan [7115 0366 0589], assistant chairman of the International Exchange Department at Hong Kong's Chinese University, and

T'ang Fu-tsang [0781 1381 5661], director of the Institute of Management Science at Taiwan's National Ch'eng Kung University held views which were diametrically opposed to those of the South Korean scholars.

Lin Ming-te, after comparing the economic development backgrounds of Japan and Asia's "four little dragons," felt that, although there were connections between Confucian ethics and economic development, economic development was by no means a product of Confucianism. The idea of economic development cannot be produced from the standpoint of spiritual cultivation, with which Confucianism is most concerned, nor is Confucianism's investigation of things and extension of knowledge to the utmost suited to application in the field of science and technology. Nor is another basis of economic development, namely, specialized knowledge of such fields as modern economics and enterprise operations and management, at all dependent on Confucianism for its cultivation. Virtues such as thriftiness, hard work, and respect for labor, which Confucianism has consistently advocated, are factors beneficial to economic development, and the Confucian idea of attaching importance to equalization must be said to have had a direct influence on social equalization. Some Confucian values may be helpful in selecting economic policies. However, there are not very many connections between the contents of Confucianism and economic development.

Chen Qinan believes that it is not "Confucian ethics" that brings to light the social and cultural basis of the East Asian economic circle; rather, it is the clan system and family ethics which are the most important factors. After analyzing the actual conditions of China's clan ethics, Chen stated that it is clan consciousness that is the motive force from which most Chinese derive a meaning for their lives and a work ethic. However, it is also the most important element of "Confucian ethics," which is commonly said to promote East Asian economic development. Analyzing Japan's economic development, Chen maintained that the duality of generality and specificity formed the uniqueness of Japan's clan and enterprise systems. With the qualitative change in Japan's economy, Japanese-style enterprises have, on the one hand, shaken off the shackles of Eastern society's clan principle and feudalistic traditions and, on the other hand, have avoided assaults like those that have occurred in Western Europe's economic system because of unstable market fluctuations and contract relations. The reason Japan's economy and enterprises have been able to become number one in the world is because they have the clan system and social tradition as their background. If we want to seek an ethical basis behind Japanese capitalism, this basis is not religious but rather familial.

T'ang Fu-tsang, in his speech entitled "Confucianism's Idea of Management," pointed out that the basic management idea of Confucianism is "heaven does not change, nor does the way change;" its highly positive

spirit and optimism is the spirit of hard struggle expressed in the maxim, "heaven" in its motion gives the idea of strength; the superior man, in accordance with this, nerves himself to ceaseless activity; "perfect virtue" is the core of Confucian philosophy; and the cultivation of one's person is the starting point of all management. "Sincerity," too, has become the key to cultivation of one's person. T'ang Fu-tsang believes that many Confucian ideas resemble expositions of modern U.S. and European management science. Since the period in which Confucius lived was one of primitive agricultural society, there were no modern enterprises, and therefore its management system of "investigation of things and extension of knowledge to the utmost, making one's

thoughts sincere and rectifying one's heart, cultivating one's person, regulating one's family, ordering well one's state, and making the whole kingdom tranquil" lacks the two words "establish businesses." In addition, although many Confucian ideas appear not to run counter to modern management ideas, many are discussions of principles and lack specific explanations, and the disparity between them increases if the Confucian ideas are adapted to the needs of modern management, formulated as specific standards and norms, and comparatively implemented. This is probably one reason that even though Confucians attach importance to practice, it is actually very difficult to apply these ideas to the reality of enterprise management.

Students Urged To Continue Tasks of Reform
40050319a Beijing XIN GUANCHA in
Chinese No 3, 10 Feb 89 p 7

[Remarks by Ge Yang 2047 2254 on 1 Dec 1988 at opening session of the First Culture Festival held in Beijing; edited by Xiao Chun 2556 2504]

[Text] The last 10 years have been a confrontation between the new ideology and the old ideology, the new culture and the old culture, the new concepts and the old concepts. Our reforms have shown new achievements, new progress, but many mysterious things have made each step difficult, with the old things resisting the new, and pulling back the new at the same time.

The 3rd plenum of the 11th CPC was a great ideology liberation movement that brought on 10 invigorating years of optimistic changes that spread from the villages to the cities. However, the course of reform for China has been quite difficult. It can be said that the group of reformists who appeared with this wave of reform has met with every imaginable difficulty.

The fact that many new things brought on by reform were swallowed up by the old should not be overlooked. Periodic "heated attacks" directed against reforms blame all corruption on reforms. In reality, the opposite is true in that the reforms were not thorough enough. During these past 10 years, the hurdle for reform of the political system has not gone over well, the commodity economy has not been able to mature, and practically all enterprises at present are unable to free themselves from the "too many mothers-in-law" syndrome, and continue to suffer various pressures from the old system's politics, economics, ideology, and culture. The fact that reforms cannot continue forward is due to a lack of the democratic process and absence of an established society ruled by law. Next year will be the 70th anniversary of the May 4th Movement, which marked the new culture heralding science and democracy. This is still our slogan at present. Without democracy and science, we cannot promote the new culture. We cannot let the palace of science become a conglomerate of large and small temples.

How can we reform in depth? How can we establish a new culture? In the past, we have said, "for a great tearing down, we have a great building up". The old has now been torn down, but the building up has been difficult. If what is set up does not hold its ground to thoroughly sweep away the old, success is hard to come by. That is why I say we should have great buildups for great tear-downs. Developing a new culture calls for great determination and breaking the fetters to carry out basic reforms in the political and cultural systems. It calls for hard work and one must be prepared for many trials. Loud name-calling and shouting are useless. Only when the task of reform is passed on to those who follow will reform be possible.

I hope that young people with ambition here at Beijing University will follow this difficult path in the course of creating a new Chinese culture. I know that because of you, Chinese civilization will shine forth in all its brilliance.

Officials 'Different From Ordinary People'
40050319b Beijing XIN GUANCHA [NEW
OBSERVATIONS] in Chinese No 3,
10 Feb 89, pp 18-19

[Article by Chia Yi 3946 0044]

[Text] Are people alike? For an answer to this question, the common people have a folk adage, "One should die if he compares people, and goods should be tossed out if they are compared." It can be seen that not only are people are not alike when compared to each other, this dissimilarity extends even to their hearts in death, which explains the wide differences between people.

How are people not alike? Here we have political differences, social class differences, and economic differences. The results and interrelationships of these differences are reflected differently in people, though this cannot be generalized. Take intellectuals, for instance. They are all "stinking old nine's" in similar taste, it goes without saying, and their fate in the end is more or less the same when intellect is not worth a damn. Take the "18 levels of hell" as an illustration. By placing oneself at the 15th or 16th level, one may find some difference. Is a person who is capable of seizing a sword instead of a pen, who uses a gun to control the pen, regarded as an intellectual? There is no doubt he is an intellectual. However, are these intellectuals exhibiting brief flashes of brilliance in the same league with the greater numbers of "poor scholar types"? From what we can see today, once an intellectual becomes an official, he is already different from other intellectuals. Where is this difference? What he eats and wears, where he lives, and what he does are all different. If you do not believe this, check it out. Even their speech is different, for they are now singing a different tune. It can be said that one is born with this quick adaptability to change, for the speed of this change does not require teaching or learning.

Once differences are accepted, it is easy for feelings of superiority to be generated. For instance, even people who have lived for a number of years with nothing to show for themselves show differences among themselves. For members of the older generation who consider themselves heads of their families in dealing with matters of right or wrong, their old age is their capital, and before them one has to respect them or be labeled disrespectful and rebellious. When they pat your head to demonstrate their affection, one can only nod in agreement. The difference between people is in inequality, and from the inequality arise the multitude of differences among different kinds of people in society. Is an emperor like ordinary people? Perhaps Emperor Puyi was an exception, for if the Communist Party allowed

him to transform himself to live a new life, he might or might not have felt he was no different from ordinary people. Can it be that there are others who would still regard him as an emperor? As time has shown, doesn't the earthshaking image of an "end-of-era emperor" still have a spellbinding grip on the imagination of ordinary people and foreigners?

In Xindu County of Sichuan Province, a hall of the lohans is found in the Baoguang Temple there. Inside the hall, 500 colorful lohan figures are on display in various forms, each with expressions of joy, sorrow, and anger on their faces, all examples of fine sculpture and workmanship. However, two of these 500 revered baldheaded monks are different. How are they different? It seems that during the reigns of the two Qing dynasties, under emperors Kangxi and Chienlung, Emperor Kangxi had said that since Buddha had ordered that the 18 great lohans should always live in the world among men, why could not he, the emperor, the lord of an empire, be among them? As a result, emperors Kangxi and Chienlung became members of the 500 lohans, and were designated as Anyedo Lohan in the 295th seat and Jifude Lohan in the 360th seat, respectively, and both became disciples of Buddha. Although addressed no differently as other lohans, their original characteristics as emperors were retained. Right up to the present day, among the 500 lohans in the hall, only these two are different. The other lohans don their Buddhist vestments, while these two keep their beards and wear the emperor's dragon robe, headgear, and shoes.

It is practically impossible for people to be alike. When a leader goes forth, his retinue includes those who go before and those who follow, and he is well received wherever he stops. Even if a leader would like to be with the masses, is it possible for him to do so? When a leader arrives, his underlings tend to make themselves scarce. Even though a leader may wish to be with his people, it is quite likely his underlings would not have the courage to be seen with him. Orders received from above about having four dishes and one soup for company only requires passing the orders down to be sure that the dinner will be ready, but will the underlings go about it in a calm manner? So, even if they have four dishes and one soup ready to receive their leader, is such behavior really running true to form? It is often reported that certain local officials make private "incognito" trips. From this, we can see that a leader is different from ordinary people. If they were not different from the masses, they would not be making special efforts to understand conditions among the people. When these officials have special cars taking them to and from work, they do not understand the common people's difficulties with transportation. When their clothing and food needs are cared for by others, they do not understand the ordinary people's food problems and the service personnel's working conditions. Only when they personally experience the difficulties encountered by others are they aware that such things happen in reality. So then, a leader would start to say that only in work will there be differences

such as the division of labor. Other than that, there will not be high, low, ennobling, or menial distinctions and not between officials and the common people. But there is no use even if the leader says this to the heavens, nobody, including himself, would believe that there is no difference between men.

China after all is China, and she has her traditions and practices that, once formed, are not easy to change. In foreign countries, almost all officials drive themselves to work, and take themselves to the movies. When they no longer hold office, they can operate businesses, teach at universities, and farm the land like ordinary people. What about our officials? Once our officials become officials they are no longer like the common people. Once out of office, how many become ordinary people? Let those who are like, and unlike, ordinary people make their own cases.

Publication 'Recruits' Editor in Chief

40050319c Beijing XIN GUANCH
[NEW OBSERVER] in Chinese No 3, 10 Feb 89, p 19

[Article by Shu Zhan 5289 1455]

[Text] Purpose of this Publication:

With the policy of the double hundreds—a hundred flowers blooming and a hundred schools contending—as our inspiration, and a firm adherence to class struggle as our soul, and the protection of Marxism's highest ideals as our sacred duty, we scrutinize carefully unorthodox views and deviations in ideology and culture, in literature and art, and as sensitive eyes and ears for our master and parent, we do our utmost to fight against the deification, idolization, bureaucratization, and making Confucianism out of Marxism.

Sponsoring Organization: Post Box xxxxxx.

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Historical Changes in the Duties of the Editor in Chief:

Duties in the Past:

The editor in chief must be adept at detecting changes in the political climate, be available any time to grasp the intent of the master's political struggle, and possess the ability to motivate the editorial staff to be smart and discreet in gathering information as exhaustive as possible and as fast as possible on opposition figures. The information about these figures should include their activities in and out of meetings and conferences, whether public or private, written or spoken, published or unpublished, at work or at home; whether the target talks in sleep, in romance, in jokes, slips of tongue, casual speech, notations in reading, careless talk, notations made over the telephone, the surroundings at the time of conversation, the tone of the conversation...everything to do with a person's conduct and speech. After the information has been collected, the editor in chief should be able to conduct a careful and thorough analysis

of it in accordance with the needs of the political struggle, to separate the true from the false, the wheat from the chaff, and, through process of elimination, be able to concentrate on the astonishing topics that are numbered and marked for easy identification, then print it quickly and send promptly, by night if necessary, to the master. The master may be deeply angered by the contents of the report, and without further ado, may compose a scathing article attacking his opinionated opponents, thus sealing their fate. Even though the editorial staff may be toiling away quietly for years in a mouselike manner without noticeable results, a minute of political advantage like that just described is evidence of the editor in chief's fulfilling his responsibilities, and being eligible for further advancement.

Present Duties:

In accordance to the needs of the new struggle situation, requirements for the editor in chief to meet his responsibilities are even higher, for submerging one's conscience and making them adept at secret intrigue are no longer enough to overcome the opponents. Furthermore, with implementation of a policy of "less meddling, less interference," and the way power has weighed down the darker side of the "hundred schools contending" yardstick, the duties of the original editor in chief for YANLUN ZHAIPIAN will be abolished, and the job description is now made open for a new editor in chief.

Basic Requirements for the New Editor in Chief

1. The editor in chief must be familiar with the original writings of Marx and Lenin through study on his/her own and out of the needs of the power struggle. He must be able to find and locate the voluminous critical writings, any references, however minute, that treat Marx as a Confucian saint (lest this make a super international joke of attacking Marxism as anti-Marxist).

2. He/she must have the courage to present the view of one's opponent as well as one's own—first as an open debate in the publication; next, to dare to print the opponent's rebuttal without resorting to silencing one's critics through use of power; then, to use the principle of equal treatment in the press by asserting the premise that office ranks do not matter in debates. This would rule out the possibility that one's criticism could be carried in a publication with a circulation of several hundred thousand while the rebuttal of one's opponent could not be carried even in a publication with a small circulation of several thousand.

3. He/she must refrain from exercising the "five don'ts" (do not use a big stick, do not capitalize on the vulnerability of others, do not exaggerate, do not flatter, and do not make things hard for others by abusing one's power), at least temporarily, during the period of "letting a hundred schools contend" (in case it is a pretense). That is to say that the editor in chief must not be hasty in attacking any publication, but to take matters in stride to avoid losing the confidence of the people, which is not good for the reputation of this publication.

4. He/she must be adept at summarizing the struggles of pseudo-movements that look like movements but are not real movements, so that the struggle of these movements would not be so obvious to the society and so that all opposition views and their supporters would not be heard by the society. By limiting the circulation of YANLUN ZHAIPIAN and by moderating its confrontation flavor and tilt, it will, in appearance at least, be a publication tolerant of all views.

Extremely leftist opinions must be exaggerated and consistent. The "hundred schools" are actually two schools, and in the final analysis, the policy of the dominating school of thought will be adhered to. With power comes reason and with reason comes benefit. Using power to distort reason is a crooked way for using power to scheme for selfish purposes. The endless mysteries here can only be imagined. The essence of our publication's search for a new editor in chief is an appeal to the learned scholars among us who are interested. As long as we thoroughly understand the great meaning and benefit of "using power to achieve reason," our "benefits derived from being leftist" can determine the "long life of the leftist movement."

By treating colleagues as enemies, and the exploration of other topics as heresy, we face unprecedented difficulties, as seen in the context of nonpolitical movements. But the greater the difficulty, the greater the possibility for heroes to emerge, and the greater the chance of savoring the satisfaction and joy no one has savored before.

To rising heroes and new talent interested in a career in being an informant, this is an opportunity not to be lost. For further information, please contact YANLUN ZHAIPIAN.

(Note: Our publication and WENZHAI XUE [SELECTED LITERATURE], which is the spin-off journal of QINGBAO XUE [STUDY OF INTELLIGENCE], are not the same, the chief function of YANLUN ZHAIPIAN is to look for troublemakers and rectify them.)

NATIONAL AFFAIRS, POLICY

Academic Cites Flaws, Proposes Reforms in Industrial Structure

40060380 Beijing JINGJI LILUN YU JINGJI GUANLI
[ECONOMIC THEORY AND BUSINESS
MANAGEMENT] No 1, 28 Jan 89 pp 15-20

[Article by Ma Jun 7456 7486, information research fellow at the State Council's Research Center for Study of Economic, Technological, and Social Development: "Restrictions and Thoughts on Changes in China's Industrial Structure"]

[Text] *In this article the author addresses the primary drawbacks to the regulatory mechanism the government is currently using to guide the industrial structure and he proposes a competitive market system that will be keyed on transforming the current setup of industrial organization and that will be brought about through making enterprises the main bodies and enterprise groups the core. Also, he proposes that a new mechanism be created for effecting changes in the industrial structure.*

I. Inadequacy of the Means Used for Structural Adjustment

Currently, most research being done on the issue of the industrial structure is centered on the issue of how to select the goals to be used in effecting changes in the industrial structure. Primary issues include such things as determining what industries will play leading roles or what industry groups will lead the way. However, under the conditions as they exist today in China, an even more important and difficult problem is determining what means will be used to effectively adjust the structure. The actual situation is one where the primary means used to adjust and control changes in the industrial structure by the government include such methods as government adjustment or release of prices, channeling of investment, regulation of tax rates, regulation of interest rates, and legal intervention. In the course of actual economic activity, none of these methods can fully attain their anticipated objective and at times their regulatory function may even meet with serious reversal.

A. The salutary effect of price adjustments and releases on guiding the industrial structure is only minimal. In recent years, prices for some consumer goods were adjusted or released, production materials were subject to dual-track pricing and, to varying degrees, product sales in all industries were subject to negotiated pricing, floating prices, and free pricing. Yet, average prices for products in short supply¹ rose faster than did those for products not short in supply. Analysis clearly shows that there was marked improvement in reversals of average prices in all industries and, comparing 1987 with 1982, we clearly see that there was a reduction in the disparity in the profit tax rates between the various industries. Using the standard deviation to show the degree of deviation in the profit tax rates between industries, we

see that in 1982 the standard deviation was 19.97, but in 1987 it was 10.03. However, in this situation where improvements were made through price reversals, the interindustry increments of resource allocation worsened.

Table 1. 1982-1987

Factor Analyzed	Points per 100	Percentage
Average annual growth rate in overall industrial output value	15.7	100
(1) Effect of capital growth	8.49	54.1
(2) Effect of labor growth	1.77	11.3
(3) Effect of structural changes in capital depts.	-0.29	-1.84
(4) Effect of structural changes in labor depts.	0.03	0.19
(5) Effect of technological progress	5.70	36.3

Table 1 represents the results after applying standard accounting techniques to analyze factors leading to technological progress.² Changes in the structure of capital departments and labor force departments had an overall negative value on the increase in total industrial output value. Looking at the actual situation, in recent years the plan and nonplan prices for many important raw materials all rose sharply, but the rate of growth for departments with products in short supply was much lower than the rate of growth in overall industrial output value and structural contradictions became more pronounced. These conditions suggest that price reform will run the danger of meeting up with the "shortage premise"; namely, simply adjusting and releasing prices, will not cause the desired industrial structure to emerge naturally.

B. Channeling investment that is within the budgetary items does nothing to alleviate structural contradictions. The use to which state budget capital is employed has already fully realized to a great extent the goal of a balanced structure. That is, "channeling" has already run its course. Already, more than 80 percent of budgeted basic construction investment is being employed in the energy resources industries and most of the remainder is being employed in the transportation, shipping, and basic raw materials industries. However, the pressures caused by shortages of energy resources and raw materials and the short supplies of transportation and shipping have continually grown. Hereafter, even if 100 percent of the state's budgeted basic construction investment is used in the direction of energy resource industries, it will still be difficult to satisfy the demand of current energy-consuming industries, to say nothing of industries that grow at a rate of 10 percentage points a year.

C. Disparate tax rates have also not helped the government adjust industrial structures. Basically, the regulatory tax rate of an enterprise is determined by subtracting its profit-to-tax income tax from the amount of enterprise profits paid to higher levels. This rests on the principle of acknowledging the vested interests of the enterprise and at the same time it allows for the avoidance of disparities in the per person retained earnings of different enterprises. The main function of this reallocation mechanism is to "evenly distribute the wealth" and not to improve the industrial structure. Actually, after getting rid of irrational price factors, a considerable number of enterprises that are able to market their products and achieve good economic results are taxed twice, whereas enterprises with high costs and poor results can get tax reductions or exemptions.

Analysis of an investigation involving 234 state-run enterprises shows that enterprise investment activity is closely related to the retained profit rate for the preceding year, but is not related to the profit rate on capital. This is to say, under the current system of taxation, enterprises with high profit rates are not necessarily going to have high retained profits, thus, they are not necessarily going to have a high tendency toward investment, and changes in the industrial structure are not necessarily going to come about through higher rates of efficiency in capital use. We can see from this that, if corresponding tax reforms do not accompany adjustment and release of prices, then the function of rational price signals to induce changes in the industrial structure will be greatly weakened.

D. Differential interest rates among industries has not been able to manifest as an important means of guiding the flow of capital. Banks themselves can guide the flow of capital toward departments experiencing supply shortages or those that are key items and can prevent too much capital from crowding into departments that are oversupplied by creating different interest rates for different industries based on the requirements of state industrial policy. However, under the current system of interest rates in China, the gap between interest rates among lines of business, industrial and commercial concerns, and regions is small or nonexistent. Moreover, in actual economic life, the effect of differential interest rates among industries is restricted by many factors. First, interest rates that are generally too low nearly kill the regulatory function of interest rates. In the first half of 1988, the inflation rate reached 13 percent, but currently the overwhelming majority of interest rates on various kinds of loans is less than half this figure. As for the enterprises, they feel that any kind of loan is worth taking on at this rate and some enterprises even take out loans to use in hoarding raw materials that are hard to come by. They wait for prices to go up and then sell at a profit. Second, even though there are clear differences between interest rates, because enterprise capital currently cannot freely flow between industries or regions, the basic condition by which interest rates could regulate capital flow is lacking.

II. Flaws in the Mechanisms Used To Regulate Industrial Structure

The analysis above clearly demonstrates that the ability of the state to directly regulate changes in the industrial structure has been seriously weakened and mechanisms for indirectly adjusting and controlling changes in the industrial structure have yet to be perfected. This is to say, in the current economic regulatory system with its numerous vital links, many factors exist that hinder the industrial structure from evolving toward greater rationality and higher levels. These failings in the regulatory mechanisms are due to such things as enterprise behavior, industrial organization, government investment, and pricing policy.

A. Entry barriers exist in bottleneck industries and the reaction of supply growth on price is too slow. Although the free prices in the dual-track pricing system for production materials are much higher than the plan prices (the negotiated prices for some products are three or four times higher than the plan price), this profit inducement has not caused resources to quickly and substantially move into these areas. A rational explanation for this is that there are strong entry barriers in such bottleneck industries as energy resources and raw materials.

The primary barriers keeping resources out of the bottleneck industries include government control barriers, capital barriers, and technological barriers. Government control barriers refer to the fact that much of the production, sales, and investment of bottleneck industries is under the government plan, and enterprises that seek to enter these territories will meet with all sorts of government intervention. There is less than complete autonomy of decisionmaking power in selecting industrial structure, determining what amounts of what to sell, and fixing the sales price. Also, supplies that are short but that must be used in production often can't be ensured and thus more and more enterprises are naturally inclined to move into territories that involve a lesser degree of planning. Capital barriers refer to the fact that enterprises engaged in energy resources and raw materials generally require a certain economic scale and considerable investment. The current scattering of non-budgetary capital means that such organizational vehicles as mergers are not being employed and the energy resource and raw material industries have a hard time getting hold of investments from multiple sources. Technological barriers refer to the fact that enterprises in the energy resource and raw materials industries require fairly strong abilities in technological development and fairly high levels of technology and equipment and it is quite difficult for the technology in other industries to be shifted into this field.

B. It is quite difficult to shift assets from one industry or enterprise to another. In the past we became accustomed to employing such means of government compulsion as "closing, suspending, merging, or retooling outmoded,

unnecessary factories" to solve problems of inefficient deployment of resources among industries or enterprises. However, with widespread implementation of the contract management system, the possibility for leading departments to shift personnel, finances, or materials from one enterprise to another has become minute. In addition, government finances have been tight and there has been no ability to bear the burden of enterprise losses incurred in the process of closing, suspending, merging, or retooling outmoded, unnecessary factories. Thus, the life has gone out of the old mechanism used to redistribute assets and the new mechanism has not been constructed. This adds to the rigidity of the current structure.

In recent years, the development of horizontal economic integration and the many appearances of enterprise groups have provided us with beneficial lessons on how to solve the problem of allocating assets. However, enterprise additions that act as effective ways to divert assets across industries or regions have been seriously obstructed by the principle of "the three no-changes" and particularly the principle of "jurisdictional relationships should not be changed." In order to maintain the status quo of interest distribution, departments have been unwilling to hand enterprises under their control over to other departments or enterprise groups, even though they themselves were incapable of providing the subordinate enterprise with the necessary policies and services. The current practice of enterprises under the jurisdiction of outside departments or regions to take on contracts or leases is premised on the enterprise paying the corresponding profit tax to its original leading department or local government. This practice is, at best, a means of adapting to circumstances. It would be difficult for this to become a standard form of asset shifting and the likelihood of it becoming popular is quite limited.

C. Interdepartmental relations and correspondence are poor. Excellent development in leading industries requires that leading industries build fairly strong relations and correspondence with other industries. Only in this way can the goal of overall structural excellence be achieved. But the fact is, because different departments divide up control in the industries, effective means do not exist for organizing cooperation among departments. Some items like cars and electric home appliances that originally had strong backward relations and correspondence must have cooperation in research and development between basic raw materials departments and machinery, electrical, and chemical engineering departments for many of their spare parts, components, and unit parts. The assimilation of introduced equipment also requires interdepartmental collaboration. However, aside from a minority of items for which departments coordinate their efforts, departments still put up formidable walls between themselves regarding a considerable number of items. Only once a department finds it has no way to solve a problem, will it consider getting help.

D. Regional division. Rationalization of the industrial structure requires a nationwide environment wherein key elements of production flow freely. In recent years the financial strength that local governments have gotten from the central government's abdication of some powers over finances and from enterprise apportionment has increased rapidly. The local governments have gotten control of fairly large amounts of capital, energy resources, and materials, and the scope and standard of their investments have put them in an important position with regard to increasing regulation of the industrial structure. However, local governments do not simply have profits on their minds. Aside from increasing output value and profits to gain a higher economic position in the nation, the goals of the local governments also include upgrading their cities and service infrastructures, increasing employment, and other such goals of a nonprofit motive nature. These motives often cause them to appraise various items on a basis other than absolute economic return on investment. And even when return on investment is considered in determining the investment to make, local governments will persist in investing in their own jurisdictions even though the money may earn a better return somewhere else. If we also take note of the underdevelopment of the capital markets and the lack of capital value, then we can see how this kind of sluggish horizontal flow of key elements has come about.

E. Poor development of markets for key elements. As the degree of planning in enterprise supply, production, and sales has gone down, effective changes in industrial and product structures have required stronger markets for key elements. However, this is far from being currently realized.

In recent years some production material markets that have been freed up under the dual-track system of pricing have played a definite regulatory role when compared with the markets of other key elements. However, because of excessive shortages, a situation of "a price exists but there is no market" has often emerged in some production material markets. Moreover, this longstanding fact that has affected the division of supply under "part market, part plan," continues to limit the free exchange of production materials and induces a tendency in enterprises to seek out production materials from higher level leading departments at par prices and weakens the effect that market supply and demand has on increasing supply.

Undeveloped capital markets lead to serious difficulties. Although in recent years all sorts of stocks and bonds have come to be used, basically markets for these things have yet to be formed. Although the deposits in various kinds of investment trust companies and credit cooperatives have increased rapidly in recent years, government banks have remained in the position of having an absolute monopoly over these activities. In controlling overall amounts the government always adopts administrative measures to tighten up loans to medium-size

and small enterprises and this results in changes in the product structures of medium-size and small enterprises only proceeding at low rates of efficiency in an environment where capital is sometimes tight and other times abundant. The production ability of many economically efficient products is only stifled under conditions where control is exercised with arbitrary uniformity.

Basically, the construction of a labor force market still exists only on paper. It is difficult for enterprises with an abundance of labor (particularly enterprises owned by the whole people) to cut back on employees and there is a tendency to reject new technologies that allow for a smaller labor requirement. In recent years some cities and towns on the coast have experienced labor shortages but there has been no way to bring in surplus labor from other areas in a stable and lawful way. Systematic barriers in the process of shifting the labor force have greatly weakened the effect of reallocations in key elements for structural adjustment.

F. Massive increases in overall amounts. The traditional system of encouraging investment where it is needed still plays a role, enlivening of enterprises and macroeconomic control has not been coordinated. All of these are new reasons for massive increases in overall amounts. And overall increases are clearly related to structural worsening. From evaluating the efficiency of intra-industry capital and changes in the structure of the labor force we can see a predictable cycle: from 1978 to 1980 industry grew rapidly (the average yearly growth rate was 7.8 percent), resource allocation worsened (the capital and labor department structure changes registered an overall negative efficiency value); from 1980 to 1982 the industrial growth rate dropped sharply (the average yearly growth rate was 4 percent), resource allocation improved (the capital and labor department structure changes registered an overall positive efficiency value); between 1982 and 1985 industry grew rapidly (the average yearly growth rate was 15.1 percent), resource allocation worsened once again (the capital and labor department structure changes registered an overall negative value).

Currency amounts have risen too quickly, overall demand has grown too much and the rate of economic growth is too high. Though we may not be able to say whether these are direct causes of structural imbalance, at least we can say that they are important factors. First of all, growth in overall demand is usually preceded by growth in overall consumption. When there is a strong expectation of inflation, the prospects for consumer goods markets look good and consumer goods industries lead the way in high-speed growth. But because of the existence of entry barriers into the infrastructure and basic industries, enterprises react quite slowly to changes in supply from these areas and this can lead to structural imbalances which emerge as a companion to increased overall amounts. Second, after the overall amounts have been increased, what was originally a structural shortage becomes a comprehensive shortage, free market product

prices soar and prices in the corresponding planned areas also go up which conceals the structural contradictions in the background. At the same time, this causes enterprises to expect more profits than before and this easily leads more or less to acceptance of price distortions.

III. Thoughts on Building an Effective Mechanism for Adjusting and Controlling the Industrial Structure

As was pointed out above, because the necessary economic environment that would allow for a series of macroadjustment and control measures to effect changes in the industrial structure has been lacking, it has been difficult to obtain the anticipated results. To deal with this situation, we propose that transformation of the existing organizational setup of industry be made a central item, and at the same time reforms in such complementary areas as planning, investment, finance, taxation, and foreign trade be carried out, rational and highly efficient flow of resources between industries and regions be facilitated, competitive market systems be formed with enterprises as the main bodies and enterprise groups as the core, the relationship between the state and the enterprise go from being one where the central government creates barriers to directly control the enterprise to one where the government indirectly employs economic levers to adjust and control large-scale enterprise groups and the large-scale enterprises in turn organize medium- and small-scale enterprises for the purpose of specialized cooperative production. Specifics for transforming the organization of industry include:

A. Gradually do away with the specialized bureaus and administrative-type companies in the leading industries in the various areas and return to the enterprises all of the powers of self-initiative that had been stripped away from them by these various departments. In this way the enterprises can truly enjoy freedom to organize production based on market signals.

It is evident from the current situation that the conditions basically exist to do away with the leading industrial bureaus and administrative-type companies on a fairly large scale. The vast majority of the enterprises at the local city level or below that find themselves subordinate to the local industrial bureaus are medium and small enterprises. These enterprises are in basically the same market environment as the township enterprises. The degree of planning exerted over supply, production, and sales originally was fairly low. The leading departments generally couldn't provide much service to the enterprises in the way of raw materials, products, technology, and production assistance. On the contrary, various forms of apportionment, divvying up of enterprise resources, and aimless directives were all quite common. Also, a considerable number of enterprises and leading departments were overstaffed and their rate of efficiency fell. We may estimate that first getting rid of the leading departments in these industries won't cause

chaos in enterprise management order, but will put the enterprises in conformity with market trends and create a premise for the vitalization of product structure adjustment.

When conditions are ripe we can give thought to the practices at the local city level and below, further cutting away, merging, and economizing the leading industrial bureaus subordinate to the self-administered municipalities. At the same time, the majority of enterprises subordinate to the central government can be released onto the market. The investment powers of the central government's leading departments in the various industries can be gradually eliminated as well as their powers of direct control over the enterprises (production planning, product sales, raw material supply, personnel arrangements, etc.). The function of the various central government departments should be adjusted toward helping the enterprises make plans, coordinate efforts, and organize information exchange and concerted development.

B. Large enterprise groups can be fostered in the various industries and they might number several hundred. Several hundred large enterprise groups would become production organizers and coordinators for hundreds of thousands of enterprises. These groups would take over the government's comprehensive investment function in the industries. Also, they would organize the specialized cooperative efforts of medium and small enterprises based on the requirements of economies of scale. A considerable number of enterprise groups could branch out across regions and industries and they would have substantial abilities to compete in international competition and a batch of the enterprise groups could organize both inter- and intra-regional markets for production materials.

C. With the specialized banks becoming more enterprise-like, we could form combined groups of banks and enterprises, form a batch of finance-industry groups with the banks as the main body and give full play to the function of the banks in organizing extrabudgetary capital. The government could make efforts to support a batch of finance-industry groups specially managed to pursue key state construction and long-term construction items. State financial departments would gradually withdraw from the field of investing in basic industries and the investment function would be taken over by these groups.

D. A batch of high-risk investment companies and specially cultivated startup enterprises could be developed out of the enterprise groups and they could be provided with real estate and financial services. This would promote rapid and effective changes in the industry and product structures.

E. Small enterprises could be auctioned off and large and medium-size enterprises could be gradually put under the shareholding system. The state could establish central and local state-owned capital management entities to

deal in state-owned stock and run under enterprise-type management. Government control over the enterprise groups would be mainly in the form of actions by the stockholders themselves.

F. Perfect the laws that pertain to the management activities of enterprises and enterprise groups and strictly restrain those forms of monopolistic management that do not lend themselves to technological progress, particularly sales cartels. Strengthen supervision over enterprise finances, product quality, safety, and pollution and safeguard the rights and interests of consumers. Gradually change from the practice of government use of administrative means to intervene in the market toward reliance on the legal system to maintain market order.

It is to be anticipated that if the above-mentioned reforms are made, certain important conditions necessary for effective change of industrial structures will be created. Enterprise will organize production with prices as their primary signal and this will pave the way for the "market to guide the enterprise." The principle of "subordinate relations should not be changed" that is found in the "three no-changes" principle will vanish of itself and interindustry flows of capital reserves such as enterprise mergers will become possible. Large finance-industry groups with strong financial capabilities can use extrabudgetary funds to organize and enter the energy resources and raw materials fields, lessening and even eliminating the investment pressures of the central government. Weaker departmental barriers will bring about corresponding increases in industrial relations and leading industries could act as "examples." Large interregional enterprise groups and interregional production materials markets organized by enterprise groups will effectively break down regional barriers and competition among the groups, not regional self-protection, will become the keynote of economic activity in the domestic markets.

The primary items that revolve around the above-mentioned transformations in industrial organization must also have complementary reforms in such areas as prices, taxation, interest rates, and foreign trade.

First, prices should progressively become sorted out. We should distinguish the flexibility for supply prices of different products and formulate policies for adjusting and releasing different prices. The prices of products with great flexibility in the supply price could be released first to stimulate supply growth. As for products with little flexibility in their supply price, we ought to adjust and release the prices and at the same time we should step up the transformation of industrial organization in the corresponding businesses and enterprises, strengthen the concentrations of capital and investment abilities of enterprises in these industries, and provide more flexibility in their supply prices.

Second, under conditions where extrabudgetary capital is being used in basic industries, the state's financial arm should make further tax concessions, making corresponding cuts in its industrial investment until it is withdrawn from the area of industrial investment. As for businesses operating under released prices, a regulatory tax should be applied to them and this would prevent taxes from interfering with prices.

Third, raise interest rates to a much higher level. We could consider using the Central Bank's interest rate as a prime rate, and it generally would not be lower than the inflation rate. Permit the various specialized banks to determine their own interest rates for deposits and loans. The government financial departments could use discounting to encourage the proper investments and give form to their policy regarding the industrial structure.

Fourth, give the enterprise groups in the various industries the power to directly manage their foreign trade, allow a batch of foreign-trade companies to join the enterprise groups of their counterparts, and unite industry and trade. In some industries that are characterized by lack of cohesion and small-scale production, we could completely go forward with the foreign-trade agency system.

Fifth, we should treat control of overall amounts as an especially important complementary measure. Strictly limit deficit spending of the financial departments using bank funds. Remedy continual deficits through sales of bonds to the people. And the Central Bank should firmly control currency issuance.

Footnotes

1. As used in this article, average price is defined as = (production of products sold under planning x plan price + production of products sold outside of planning x nonplan price) divided by total production.

2. For more on model mathematics see Zheng Shaolian [6774 4801 3425] and Hu Zuguang [5170 4371 0342], "The Effect of Changes in the Structure of Departments Engaged in Key Elements on Overall Production" and "Econometrics and Research on Technology and the Economy" in Issue No 8, 1985.

International Environment 'Important' to Economic Growth

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[Article by Wang Huaining 3769 2037 1337: "International Environment for China's Reform and Opening to Outside World"]

[Text] China's past experience has shown that correctly analyzing and assessing the international environment in which we exist, as well as formulating correct policies

and strategies based on this, and obtaining more favorable objective conditions, is extremely important for smooth realization of economic growth and raising the people's living standard.

For the past 10 years, based on review of the lessons of past experience, we have reimplemented analysis and assessment of the international environment in which we exist. It is because of this new assessment that we have today's reform and opening to the outside world, and the enormous achievements of the past 10 years.

First, we have a new view regarding the global political situation, particularly regarding a world war. Although we persist in believing that the danger of a world war still exists, we believe at the same time that a world war is no longer unavoidable. This view has been set forth very clearly in a statement by Comrade Deng Xiaoping: "The danger of a world war exists. Since two superpowers are engaged in an arms race, factors leading to war may still develop. However, the people demand peace and oppose war, and the growth of the forces of world peace exceeds the growth of the forces of war....If the whole world upholds the further development of the forces of peace, it is possible that no large-scale world war will occur for a long time to come, and there will be hope for safeguarding world peace."

Since a world war is avoidable, there will be a peaceful international environment that is most fundamental and necessary for China to devote itself to socialist construction. Although unstable factors still exist in China's border regions, as long as China adopts correct positions and policies and handles the situation properly, it is entirely possible that China will gain the initiative.

In the past, China was under strong pressure from the two superpowers, the United States and the Soviet Union. For a long time, the threat from the United States remained undiminished and the threat from the Soviet Union also continued; this placed China under a pincer attack, as well as in local wars or under the threat of war. Very significant changes have already occurred in the present circumstances; China's relations with the United States and the Soviet Union have improved and may improve further in the future.

Therefore, the international political environment is more advantageous to us now than at any time in the past, thereby enabling China to concentrate its own attention more on domestic economic construction undertakings and to devote itself more to developing economic contacts with the various nations of the world.

Next, there have been certain changes in our views regarding the development of international economic relations. The course and experience of the postwar global economy and China's own economic development make us realize more clearly that, with the enormous growth in productive force and the day-by-day increase

in the degree of internationalization, international economic relations are closer than at any time in the past. Under these circumstances, any nation, regardless of its social system, that wants to rely solely on its own strength to develop its economy in isolation can only endanger its own economic development and lag further behind the global trend. Under these conditions, China should not only actively participate in the international division of labor and boldly enter the international market, it should also boldly utilize international credit and enable international funds to serve to expedite China's economic development. This has brought a fundamental ideological transformation of China's international economic relations. It is precisely because of this ideological transformation that China's various policies of opening up to the outside world have emerged and China's coastal economic development strategy has appeared.

Now, the first 10 years of China's implementation of reform and opening to the outside world have already passed. How will the international environment be henceforth for China's implementation of further reform and opening to the outside world?

From the standpoint of the international political environment, in the global political situation that has gradually formed over the course of the long postwar development, there is still not much possibility of fundamental changes occurring, at least in this country. The arms race and the vying for hegemony between the United States and the Soviet Union will continue, and neither side is very likely to gain absolute, overwhelming dominance over the other side. Nor is it possible that some other nation will supplant the present position of the United States and the Soviet Union in the foreseeable future; the balance of power has not changed enough to transform the present basic global political situation. However, the ability of the United States and the Soviet Union to control international affairs will be further weakened, thereby causing a further trend toward detente in the international situation for a period of time in the future. The danger of the United States and the Soviet Union carrying out a military invasion of China is far less than in the past, and the possibility, too, is growing less and less. With the progress achieved in China's socialist construction, its position in international affairs will rise and its voice will become louder. Therefore, from the standpoint of the future overall development trend, changes in the development of the international political environment will be advantageous to China. It is entirely possible for China to win a fairly stable environment of international peace that is necessary for realizing omnidirectional opening to the outside world and for realizing the goals which have been set for social and economic development.

From the standpoint of the development trend of global economy, reform and opening to the outside world is generally advantageous to China, but many disadvantageous factors also exist. Therefore, compared with the

international political environment, China's international economic environment may have more disadvantageous aspects. There must be sufficient mental preparedness for this, as well as timely study of relevant countermeasures.

1. It is very possible that the global economy will maintain a low rate of growth for a fairly long time. This is because many new contradictions have emerged in the course of global economic development in recent years, and these contradictions are, for the time being, still hard to resolve. This is conspicuously shown in three serious imbalances. The first is the serious imbalance that has occurred in the economy of the world's leading economic power, the United States. Since the United States entered the 1980s, it has constantly increased military spending in intensifying the arms race, while at the same time adopting measures such as tax cuts to accelerate the growth of the U.S. economy, causing the U.S. fiscal deficit to increase sharply. Huge fiscal deficits for years on end have already caused the national debt owed by the U.S. Federal Government to reach \$2.4 trillion. The U.S. domestic savings rate has consistently been very low and it would be hard to make up such a huge fiscal deficit by relying solely on domestic capital, so it has borrowed heavily from foreign nations. This has caused the United States to fall very rapidly from the summit of creditor nations and become a debtor nation, beginning in 1985. By the end of 1987, the U.S. net foreign debt had reached \$368 billion, making the United States the world's biggest debtor nation. The heavy borrowing from foreign nations by the United States caused a constant increase in foreign commodities entering the United States; this was a manifestation in material form of the inflow of foreign capital. The U.S. foreign trade deficit increased remarkably because of this. The United States was looked on as the world's largest commodity and capital market, and the problems brought by these two large deficits not only adversely affected the United States' own economic development and stability, it also caused the entire global economy to run into even greater contradictions. The second imbalance is the extreme imbalance in the area of trade of developed capitalist nations. The United States has a huge foreign trade deficit, mainly with Japan and Western Europe; Japan and Western Europe have huge foreign trade surpluses, which in the case of Japan comes mostly from the United States. This trade imbalance between them has aggravated their mutual economic contradictions and caused the reemergence of trade protectionism. This is clearly an unfavorable factor in the growth of international trade as a whole and global economic development. The third serious imbalance is the increasing imbalance of economic development between North and South. The economic development of developing nations has run into the most serious difficulties since World War II; these nations not only bear a heavy debt burden amounting to \$1.2 trillion, but a backflow of capital to developed capitalist nations has also appeared, and many nations' economic disparity with developed capitalist nations is increasing day by day. The relative shrinking

of the economies of the numerous developing nations cannot help but cause the development of the global economy as a whole to run into very serious problems, causing it to lose speed and stability. In addition to the aforementioned three major imbalances, caused by the assault on the postwar international economic order brought on by the drop in U.S. economic status, the unemployment rates of many nations have stayed at a high level for a long time, and international economic cooperation has been unable to play its proper role; such factors have temporarily made it difficult for the global economy to break away from the present situation of low speed and instability.

Under these conditions, for a time, the rate of development of international trade and credit will not be too fast. Competition in the international market will become fiercer and trade protectionism, too, is likely to be correspondingly intensified. It will temporarily be difficult to significantly lower the high interest rates on the international credit market, and they may even increase. All of this is unfavorable to China's development of foreign trade and use of foreign capital. At the same time, under conditions of slow economic growth, energy and primary product prices often drop, while the prices of industrial manufactured goods, particularly high-technology products, may continue to rise due to monopoly and currency inflation. This has already increased China's difficulty in expanding exports, and may worsen the conditions for China's foreign trade. Relatively high interest rates and fluctuations in the international money market are unfavorable to China's expansion of its use of foreign capital, and thus will also adversely affect, to a certain degree, the introduction of advanced foreign science and technology. China should be adequately prepared mentally for, and make an adequate estimate of, these various adverse effects caused by the global economy's low rate of growth.

2. The global economy will move further toward multiple polarization and a trend toward a certain degree of bloc formation is likely to appear.

The multiple polarization of the global economy is a result of unbalanced economic development among various nations. The exclusive U.S. domination of the early postwar period was replaced long ago by a tripartite balance of forces between the United States, Japan, and Western Europe. The future trend of the development of the global economic setup will be that for the next 10 or 20 years the United States will continue to maintain its status as preeminent power in the global economy, but its strength will further diminish. Japan's economic status will rise further, but not enough to supplant the United States as the new economic overlord of the capitalist world. Under these conditions, the current international currency and trade systems will receive further blows, and for a time, it will be hard for relatively stable and unified new systems to emerge to replace them. The economic disparity between the Soviet Union and the United States will shrink further, but the rate of

shrinkage will be slower than in the 1950s and 1960s. Although the economic development of developing nations faces enormous difficulties, their economic strength will still generally increase somewhat, particularly in the Asian-Pacific region, which will become the most promising region in global economic development. However, due to various factors, the position of developing nations in global economy is still inadequate to form an independent pole which could be placed on a par with the developed capitalist nations and the Soviet Union.

The multiple polarization of global economy has aggravated contradictions and competition among nations, thereby spurring the development of bloc formation to a certain degree. The earliest economic bloc formed, the European Common Market, is stepping up the pace of unification and plans to form in 1992 a major market with free flow of commodities, capital, and labor force. The United States, which originally had consistently opposed bilateral trade negotiations, has also changed to new ways; not only did it conclude a free trade agreement with Israel long ago, it has also separately concluded free trade agreements with its neighbors Canada and Mexico, advancing in the direction of forming a free trade zone around the United States. The United States has also proposed implementation of bilateral trade agreement negotiations with Japan, Australia, and the ASEAN nations. Japan, naturally, is not resigned to loneliness, and has formally proposed the tentative idea of establishing a Pacific economic and trade zone. Clearly, under these conditions of the multiple polarization of the global economy, the formation of economic blocs has become a new trend worth paying attention to.

The formation of economic blocs runs counter to the general trend of global economic development and is detrimental to the internationalization of economic life. This is because economic blocs always have a certain exclusiveness. Within an economic bloc, the various nations may mutually enjoy various preferential policies, while nations which are not members of the bloc are excluded from these preferential conditions, and this is clearly a disadvantage to nations which are not members of the bloc. Of course, it is not very likely that the current trend toward formation of economic blocs will develop within this century into a situation of sharp division and serious antagonism in which the unified global economy is artificially broken up, as in the situation which existed before World War II. We must also make realistic assessments with regard to this.

This trend in global economy toward the development of multiple polarization and bloc formation is clearly a factor that is unfavorable to China's opening to the outside world.

3. Scientific and technological progress will influence to a greater degree the economic development of the world and of each nation.

The rapid progress of science and technology and the role it plays in economic development has already provided China with an opportunity for accelerating development, and it has also posed a fairly serious challenge. China, through its own efforts and through introducing newly developed science and technology, can carry out technical renovation in order to reduce its economic disparity with developed nations and shorten the route traveled by other nations in developing their economies. However, it should also be soberly recognized that because the disparity between China and the developed nations with regard to science and technology is currently quite wide, it will be very difficult to catch up to the level of the advanced nations. Because the developed nations have a monopoly on advanced science and technology, and also because they have a far greater amount of talented personnel, capital, and various material conditions, it is very hard for China to compete with them in this field. If it is done improperly, it may widen the disparity with developed nations in science and technology, and even widen the economic disparity.

Of course, China also has its own advantages in developing science and technology. In some fields of science and technology, China has now reached a level that is by no means low, and has a science and technology force whose level is fairly high. As long as we adopt correct policies and give full play to the zeal of this force, it can accomplish quite a bit. At the same time, China, through strengthening organizational guidance, can also concentrate its power on tackling key scientific and technical problems, in order to give play to the advantages of collective research. If China can effectively combine its own research with the introduction of foreign technology, it will be able to meet the challenge and use the opportunity to enable it to travel a relatively smooth course with respect to scientific and technical progress and social and economic development.

4. The current international economic order is unfavorable to developing nations, and moreover, it cannot be fundamentally changed in the foreseeable future.

It should be recognized that, to a great extent, international monopoly capital still controls international trade, international finance, and international investment, and because of this is regarded as a method of carrying out international exploitation. Transnational corporations, through their monopoly of advanced technology, are taking in large profits. The existing international trade and international finance systems play the role of upholding this monopoly, control, and exploitation. The price scissors that exists in international trade between industrial manufactured goods and primary products, the violent fluctuation of exchange rates caused by the international exchange rate system, the international credit market's interest rate determination and harsh terms, etc., have all amply shown the inequality between developed nations and developing nations. In the past few years, although developing nations are becoming increasingly united day by day, they have waged certain

struggles against the old international economic order, and have won certain victories, but the situation has by no means been fundamentally changed. The course of struggle has shown that this is a long, arduous, and complex task.

As a developing nation, China, too, is naturally up against the unfavorable conditions of the present international economic order.

Naturally, China, as a socialist nation, is also a major power, and obviously occupies a more favorable position in the old international economic order than other developing nations. The question is whether China, with regard to this, can judge the hour and size up the situation, and adopt correct policies, enabling it to take the initiative.

It can be seen from the above analysis of several points that, in the course of China's further reform and opening to the outside world, unfavorable factors really exist amid the relatively favorable international environment. This requires carrying out serious investigation and research and analyzing various pros and cons in order to use the favorable factors to the utmost and strive to avoid and improve unfavorable conditions, and enable China's reform and opening to the outside world to smoothly achieve its anticipated goals.

Regional Cooperation in Commodity Economy Provides 'Mutual Benefits'

40060358 Beijing GAIGE [REFORM] in Chinese
No 1, 20 Jan 89 pp 5-8

[Article by Fei Xiaotong 6316 1321 6639, adviser, State Nationalities Affairs Commission: "Developing Commodity Economy and Coordinating East-West Relations"]

[Text] After the central authorities put forth the coastal development strategy, thorough study of the issue of the relation between the development of the eastern and western regions became very important.

The eastern region has changed very rapidly in the past year and a half. Taking Jiangsu as an example, we have divided Jiangsu into three regions with different levels of development, namely, the southern, central, and northern regions; we have noticed a "southern Jiangsu pattern" and have also noticed problems in northern Jiangsu's development, but we have not talked enough about the issue of relations between southern and northern Jiangsu. Recently, many changes have occurred in relations between southern and northern Jiangsu. In southern Jiangsu, which is known as the "home of silk," the silk industry has recently been loudly bemoaning its shortage of raw materials and complaining that northern Jiangsu is unwilling to sell it silkworm cocoons. This resembles the vying for raw materials in the "wool war" and reflects a change in relations between the regions. In the past, southern Jiangsu grew its own mulberry leaves

and raised its own cocoons, and was self-sufficient in raw materials. In recent years, mulberry leaves and cocoons have crossed the Chang Jiang and made a home in northern Jiangsu, and now northern Jiangsu's output of mulberry leaves and cocoons has already surpassed that of southern Jiangsu. The northward shift of mulberry leaves and cocoons is an inevitable result of the laws of the commodity economy, like the changes currently occurring in the global economic and industrial structure. There are two main forms of adjustment and shifting of industrial structure. One is realized through population shift. It is manifested as a heavy concentration of population and industry in cities, as in present-day Mexico City and Singapore; this phenomenon has also occurred in China's Shanghai. Another form is realized through industrial shift. This is manifested as the spreading outward of labor-intensive industries; the rise of southern Jiangsu's township enterprises is the result of this kind of spreading. This has spurred the shift of mulberry leaf cultivation and cocoon raising to northern Jiangsu, which is relatively backward economically.

In our past study of small cities and towns, we put forth the important concept of "leaving the soil without leaving the countryside," which was put forth based on the conditions of economic development at that time. Now, however, with the changes in economic development, peasants can leave both the countryside and the soil. There are two premises: first, agricultural operations of scale; second, the social security system. I have conducted a study of scale agriculture in southern Jiangsu, and I generally believe that if a rural labor force has socialized services before, during, and after production and uses mechanized cultivation, it can cultivate 10-20 mu of land, and its income will be equivalent to the labor force employed. From another aspect, land has long played the role of social security for peasants, and before the new social security system was established, peasants were reluctant to relinquish the land.

Southern Jiangsu's opportunity for attaining a new level still lies in the intensified development of township enterprises. Southern Jiangsu's silk industry requires not only silk weaving but also printing and dyeing and further development of clothing production. Southern Jiangsu currently produces mostly primary products, and the proportion of clothing and final products is still very small. As southern Jiangsu's township enterprises develop toward technology intensiveness, the northward shift of labor-intensive industries such as mulberry leaf cultivation and cocoon raising is unavoidable. It is entirely possible that northern Jiangsu will become the new mulberry leaf and cocoon base. This example demonstrates the principle that the changing and shifting of the international and domestic economic and industrial structure is not at all caused by artificial designing and planning, but rather is the inevitable result of the law of commodity economy. With regard to this law, we can only understand and respect it, and not expect to artificially interfere with it. Only on this basis can we deal with various relations, as in the issue of coordinated development between southern and northern Jiangsu.

This is also the case with the central region, of which Hunan is representative. Changes in the eastern coastal region directly affect the central region, forming a "secondary coastal region." Southern Hunan, where Hunan borders on Guangdong, has now become an elastic transitional region. For example, the Guangdong market needs a large volume of live hogs, and a "hog-raising fad" has arisen in several counties along the border between Hunan and Guangdong. Guangdong and Hunan have now formed a "relay race," whereby Hunan sells its live hogs to Guangdong for consumption by the people of Guangdong, while the live hogs raised by the people of Guangdong are sold to Hong Kong to earn foreign exchange, because the hogs raised in Guangdong are the "lean meat variety" of hogs needed by the Hong Kong market.

Guangdong receives economic diffusion from Hong Kong and passes it on to the interior. For example, many of the workers in Guangdong enterprises that process supplied materials are from Hunan, and some of these become intermediaries who continue the diffusion. This "relay race" and uneven but steady diffusion is still proceeding from the coast to the interior and is likely to directly enter Hunan via Shaoguan. However, we should soberly realize that this diffusion is not unlimited; rather, it is determined by the law of commodity economy and by changes in the international market. With regard to Guangdong's vaunted "southern wind," this is determined by the prosperity of Hong Kong's economy, while Hong Kong's economy is determined by the rise and fall of the global economy. The international market changes rapidly, and we still lack experience in confronting this constantly changing international market. Our foreign trade system is very inappropriate and our "large-volume imports and exports" are still in the hands of others; this is currently the biggest problem in externally oriented economic development. We do not yet have our own information center for confronting the global market; the information centers are in Hong Kong and Japan, and we can obtain orders for goods only through the information centers of others. This kind of passive situation cannot be resolved in a short time, and we should consistently keep cool heads, reduce our dependence on foreign nations, and endeavor to reduce losses from major fluctuations.

Development of the western region should in the same way respect the law of commodity economy. In the west, we must first of all solve the problem of starting up economic development. I often use the figure of speech that a region's economic operation must have an "engine," and this engine's function is to start the economic development of the whole region. The phenomenon of "richly endowed poverty" has now emerged in the western region—resources are abundant, but the economy is backward. If our enterprises in the western region are handled properly, they may give impetus to the development of resources, spur the development of various local industries, and form a favorable cycle; if they are handled poorly, they will be "isolated islands"

emerging in the desert, completely cut off from the surrounding society. The key to the starting of this "engine" is the establishment of market orientation. The coastal region's "externally oriented" economy reflects an orientation toward the international market, while at the same time it cannot ignore a domestic market orientation. This is the "two markets used one after another" of which I often speak.

In Linxia, Gansu, I set forth the startup strategy of "using commerce to bring along industry." When making an investigation there, I discovered a peasant distribution unit—the "egg-moving unit." They purchase a large quantity of eggs in the countryside and take them by bicycle to Lanzhou to sell them, thereby vitalizing distribution and promoting production. I believe that each region should have this kind of "egg-moving unit" and use it to spark the startup of the economic operation of the entire region. I went a step further and studied the history of this region's Hui nationality, and proposed bringing into play the Hui people's skill in business to vitalize the region's economy. The development of this regional commodity economy has produced a trend toward greater regional integration and requires a larger basis for commodity economy development; the cooperation between the three provinces and autonomous regions of Gansu, Qinghai, and Ningxia has emerged from this as the times require. This "cooperation region" has historically been part of an economic zone, the 1,000-li Huang He valley, of which the Hexi corridor is the main part; the Hui nationality, which is good at business, has resided in this zone for a long time. Looking at this 1,000-li zone as a whole, we propose establishing 12 large hydroelectric stations to solve this zone's energy problem; energy would be produced from hydroelectric power, the energy would give impetus to the exploitation of mineral resources, and exploitation of mineral resources would bring prosperity to the 30 million people of this "cooperation region," thereby spurring a beneficial cycle in the commodity economy of the whole region. This economic startup will result in the formation of an economic development center in the northwest region; this would not be newly created, but rather the restoration of an economic center which formerly existed.

The further significance of the restoration and development of this economic center is that it would reopen the "silk route" to the west and open the western region's international market. In a sense, the western region's international market has greater latent potential than that of the eastern region. Because "externally oriented" development toward the east will be checked by the protective screen of Japan and Asia's "four little dragons," while there are few competitors in moving westward into central and western Asia and the Middle East, we have a certain advantage. We will bring into full play the national strengths of the Hui nationality in providing various articles for daily use needed by Islamic nations. It is entirely possible that we will establish a very large western foreign market. The Soviet Union is

now racing with us with respect to this. In general, an externally oriented economy is not one-way, and it is also necessary to bring into play the strengths of the various nationalities in opening an international market.

With regard to market orientation, there is no question that the international market urgently awaits development, but the domestic market's potential is now far from being realized, especially the great domestic rural market. Everyone knows that the income of peasants in every locality has increased in recent years. Before 1980, the annual income of peasants in most of China's rural regions was under 100 yuan, while now the poverty line has risen to 200 yuan, and although it is true that there are still 60 million people nationwide below this line, the income of peasants in the overwhelming majority of regions has exceeded 400 yuan, and some regions have developed even faster. When peasants get their hands on some money, how do they spend it? Rural southern Jiangsu, through developing township enterprises, has converted this money into industrial accumulation. However, the peasants in most regions have built houses or spent the money on food, rather than converting it into productive force.

There are two main outlets for money in the hands of peasants: One is production and the other is livelihood. Peasants have just emerged from a natural economy and entered a commodity economy climate, and many strange phenomena have appeared, including the curious phenomenon of the peasants' standard of living. We visited the new houses of peasants in Yuanjiang, the rooms of which had almost no furniture; many peasants buy radio cassette-recorders, high-grade stereo equipment, and televisions, and it is very unclear how much these electrical appliances benefit the peasants. Many regions have not yet been electrified, or have inadequate electrical power, and when the peasants watch television either the picture is unclear or they always watch rebroadcasts (due to power outages). Even so, peasants still buy a lot of household electrical appliances. Peasants in some localities use washing machines for storing rice. This shows that there is a problem of guidance with respect to money in the hands of the peasants which is very worthy of attention. Our great rural market includes two parts: One is the means of production required by the peasants, and the other is the means of subsistence required by them. If peasants now have money that they want to use to buy means of production such as chemical fertilizer and agricultural chemicals but cannot buy them, how can this convert the money in the hands of the peasants into production capital? If peasants' new homes do not have suitable articles for daily use, how can this properly guide the money in the hands of peasants into improvement of livelihood?

The money in the hands of the peasants and the large rural market should attract our full attention. Our commodity economy should have not only an international market orientation but also a domestic market orientation, and particularly an orientation toward this large rural market.

The economic development of every region in the west should be oriented toward both domestic and foreign markets, but each locality should also suit measures to local conditions and choose their own startup model. For example, the Linxia Hui nationality's "using commerce to bring along industry" is one startup model; the peasants, without relying on official documents, have formed from the bottom up a Qinghai-Tibet plain large distribution force with more than 1,000 transport vehicles. Another example is the startup model of "energy going in advance" used by the "three-province cooperation region" of Gansu, Qinghai, and Ningxia.

Based on the specific circumstances of the western region, there are two problems related to starting up the western region's economy: The first is the problem of bringing into play the role of state-run and military industry enterprises, and the second is the problem of bringing into play the role of "east-west joint operation." State-run and military industry enterprises are what we often refer to as third-line enterprises, and are the technological stronghold of the western region. In the past 30 years, the state has invested more than 100 billion yuan in the western region to construct these enterprises. Under the rigid system of a planned economy, these enterprises pay no attention to returns and are not concerned about costs, and most have their losses compensated by the state. In particular, these enterprises set up their own society and form their own system and are almost completely cut off from the surrounding society, and they have not formed a strong force for spurring the economic development of the surrounding regions. At the Baotou Iron and Steel Plant, for example, the enterprise runs society, and the more it bears the burden, the bigger the burden becomes; but all of its own steel products are shipped to other localities, and the steel products needed by Inner Mongolia, where the Baotou Iron and Steel Plant is located, must be purchased from elsewhere and shipped in, forming a so-called "enclave phenomenon."

Although these state-run and military industry enterprises have undergone some changes in recent years, they are far from having realized their capacity. Their greatest strength is technological strength. Such localities as Lanzhou and Xian have a higher proportion of intellectuals in professional posts at the middle rank and above than does Shanghai, and many enterprises in the west lead the nation in technological and facility strength. How these enterprises are to spread their own technological strength to the surrounding regions is a question worth considering.

I believe that this kind of diffusion should be divided into two steps. The first step is a change of type: this means "switching from military to civilian production," "using heavy industry to bring along light industry," converting the production of military items in the previous planned economy into production of items for civilian use in a consumer economy, and converting the monopolized sales economy into a market economy. We

will allow heavy industry to bring along light industry, allow ownership by the whole people to support collective ownership, and allow large enterprises to combine with medium-sized and small enterprises. The second step is regional diffusion: after the change of type, a foundation is laid for lateral integration between large state-run enterprises and military industry enterprises and the surrounding regions, combining the large enterprises' technological strength with the localities' strength in resources and labor force, which will produce overall benefits. Bringing into play the strength of state-run and military industry enterprises and starting up the economic operation of the western region is an important startup model.

"Cooperation between east and west with mutual benefits for both" is what I have advocated all along. Inner Mongolia's Hulun Buir League has experienced very rapid economic development in recent years; its animal husbandry has switched from rough grazing to yard raising, and its agriculture has switched from disorderly cultivation to a mechanized scale operation, but its forestry resources have not been exploited very well, and there has been a great deal of waste. I acted as a "matchmaker" there, introducing them to joint operation with Jiangsu; Jiangsu sent personnel to help establish a lumber-processing factory, and Inner Mongolia provides lumber in exchange for skilled personnel and technology. Through this kind of "east-west joint operation," the minority nationalities' own industrial basis was established in the west; this is a form of "domestic compensation trade." I also acted as a "matchmaker" in Manzhouli City, allowing Jiangsu and them to jointly run foreign trade exports and organize supply of goods for export to the Soviet Union, and then proceed to import in return for foreign exchange, "using the east to support the west and using the west to supply the east," engaging in "large volumes of imports and exports" domestically and, concurrently with the "great international circle," expedite the "great domestic circle."

"Interregional cooperation" is multifaceted; for example, Inner Mongolia can cooperate with Jiangsu and can also cooperate in joint operations with the three northeastern provinces, allowing each locality's strengths to be improved through cooperation. We should, at the same time, expedite implementation of "east-west cooperation," providing favorable conditions for cooperation between the eastern and western regions on a broader basis. In general, strengthening interregional cooperation and forming compounded strengths is another important method of starting up the economic development of the western region.

Very significant changes have occurred in the eastern and western regions in the past year and a half, and how to correctly handle the unbalanced relationship between the eastern and western regions and promote their coordinated development is a problem which now urgently awaits a solution. Globally, there is a "North-South problem"; China has an "east-west problem." With

regard to the development outlook, absolutely balanced development is impossible, and "egalitarianism" cannot promote the development of social economy. From the standpoint of regions, China's development is a question of whether a region develops before or after other regions, while from the standpoint of individuals it is a question of whether one gets rich before or after other individuals. This is a question of adhering to the socialist route. We cannot shake off the guiding idea of "shared wealth and coordinated development." I often say that our nation is not "big fish eating little fish," but rather "big fish helping little fish." But how shall they help? I believe that there are two main ways. The first is state support, and the second is walking on one's own. Comrade Zhao Ziyang has stated that we give policies to the eastern region, while to the western region's minority nationalities we give not only policies but also practical help. However, the most basic motive force for development comes from the local masses. The purpose of state support is to help the western region's minority nationalities stand up and walk their own path of development. I have advocated all along bringing into play the strengths of each nationality and having them use their own legs to walk their own path. For example, the Zang nationality is better suited than other nationalities to the cold climate and low air pressure of the Qinghai-Tibetan plateau; the Li nationality on Hainan Island have a tradition of, and experience in, raising tropical plants. Only by helping minority nationalities stand on their own economic foundation can we prevent the minority nationalities from ceasing to exist except in name, and only in this way can China become a great home for nationalities in which every nationality shares prosperity.

The key to coordinated east-west development is deepening reform. For example, we made preparations to set up a flax factory in the northwestern region, but for several years were unable to start; the "engine" for starting this up consistently would not start. Why? Because it followed only an upper-level route and was fettered by organizations at each level. Our eyes cannot look only upward, we must also look down; a combination of up and down is the only way out. To give another example, Qinghai imposed a regional blockade on wool raw materials and prohibited their outflow. The government used administrative measures to stop the outflow, with the result that the herdsmen used guerrilla warfare to protect this "wool transport unit." The wool continues to be shipped out and the blockade's administrative force could not help degenerating. The real solution is not to maintain the low cost of raw materials, but rather to improve the operational results of enterprises. Therefore, opening can be achieved only through reform, and at the same time, reform can be achieved only through opening. To put it in a nutshell, we should abide by the laws of commodity economy in work, and in reform seek a way out and pursue development.

PROVINCIAL

Action Suggested To Resolve Heilongjiang Pricing Problems

40060412a Beijing *JIAGE LILUN YU SHIJIAN*
[PRICE THEORY AND PRACTICE] in Chinese
No 1, 20 Jan 89 pp 50-51

[Article by Zhang Junshan 1728 7410 1472, Sun Yanjie 1327 5333 2638, and Liu Baolin 0491 1405 2651: "Why Can Ceiling Prices Not Be Held—From a Heilongjiang Aspect—Existing Problems in Enforcing Ceiling Prices for Unplanned Means of Production"]

[Text] After promulgation by the State Council, in early 1988, of the "Provisional Rules on the Control of Prices for Important Means of Production and of Communication and Transport Charges" and of the "Provisional Measures for the Control of Nationwide Uniform Ceiling Prices for Unplanned Means of Production," the State Commodity Price Bureau fixed uniform ceiling prices for the first lot of unplanned means of production. These measures had a certain positive effect with regard to stabilizing prices for means of production, restraining prices charged by state-run enterprises and monopolistic trades, and checking the steep increases in prices for unplanned means of production, thus stabilizing the entire national economy and the level of commodity prices. But certain problems have remained, and viewed from the standpoint of enforcement in Heilongjiang Province, the problems manifest themselves mainly in the following directions:

1. Uneven action—some localities and enterprises do not adhere to state ceiling prices.

After the state promulgated the nationwide uniform ceiling prices for the first lot of unplanned means of production, some provincial and municipal enterprises, as well as iron and steel producing enterprises, displayed a lack of concern for the overall situation, acted willfully, and went their own way, without seriously and truly implementing the regulations, and some of their fixed prices exceeded the state-set ceilings, a situation which created an ill effect in areas where the regulations were earnestly implemented.

2. Losses are incurred by some medium-size and small manufacturers in implementing price ceilings.

Since the location of Heilongjiang Province is in the country's cold border region, transportation expenses, heating charges, and capital construction investments are high. The province is also economically and technologically not well developed, so that production costs are very high. Some enterprises, therefore, incur losses when implementing the ceiling prices. For instance, a small local aluminum plant in Jiamusi produces 3,650 tons of aluminum ingots annually at a cost of 5,199 yuan at

within-plan production and 6,932 yuan at outside-of-plan production costs. If they would sell at state-set ex-factory ceiling prices, they would take a loss of 132 yuan on every ton.

3. Some ceiling prices are not altogether rational; enterprises are unwilling to produce products for which ceiling prices have been set.

The state has set ceiling prices for special No 1 to special No 4 common aluminum ingots; enterprises will then only produce special No 5 ingots for which no ceiling price has been set. The state has set ceiling prices for galvanized sheets of less than 0.5 mm; enterprises will manufacture 0.55-mm standard products for which no ceiling prices have been set. Some enterprises even go so far as to deceive the state by invoicing for 0.55-mm sheets but delivering 0.5-mm galvanized sheets, thereby evading state restrictions and inspection.

4. Circulation suffers obstructions, which adversely affects normal supplies.

After the state promulgated the first set of ceiling prices in March 1988, the Heilongjiang Provincial Metal Corporation found itself unable by May 1988 to buy many products at the highest ex-factory ceiling prices, even at prices above the ex-factory ceiling prices, so that the corporation had a 29-percent decline in sales compared with the corresponding period last year, which seriously affected industry, agriculture, and capital construction throughout the province. Other units dealing in goods and materials are having similar problems.

5. Highest sales prices are not equally set for all localities.

Comparing ceiling sales prices of Heilongjiang Province with those of other provinces and municipalities, there is little difference in the prices for goods and materials in abundant supply, but there is a wide disparity for goods and materials in short supply. For instance, the ceiling sales price for galvanized sheets in Harbin is 3,060 yuan, but in some provinces and municipalities it is 3,800 yuan, a difference of 24 percent.

6. Irrational price parity between ceiling prices for different items.

The ex-factory ceiling price for medium plate for the manufacture of welding pipes is set at 1,350 yuan per ton, but the ceiling price of welding pipes produced from medium sheet is 1,400 yuan, with a difference of only 50 yuan between the two prices, which obviously cannot cover production costs, thus making it impossible for the enterprises to carry on production.

In view of the adverse effects that the above-stated problems are having on the control of prices for unplanned means of production and the stabilization of the economy, it is, in our opinion, necessary to adopt the following measures to resolve the problems:

1. Instituting a one-time complete review, investigation, and adjustment of the first lot of ceiling prices. "Improve the economic environment, rectify the economic order" is our present major political policy, of which adjustment of prices for means of production is one important part. With regard to the way the first lot of ceiling prices for unplanned means of production are implemented, it is necessary to institute a one-time comprehensive checkup, adjustment, and earnest review of experiences and of lessons gained, in order to preserve what is advantageous and discard what is disadvantageous, and to arrive at a situation of uniform government decrees and of strict enforcement of orders and prohibitions, so that the first lot of ceiling prices will truly fulfill the purpose for which they are intended.

2. Implementation of state ceiling prices for means of production must be strictly carried out by all, regardless of whether they are production enterprises or commercial units, regardless of whether located in the coastal region or in an opened-up region, and no one must exceed the ceiling prices. Anyone found violating the ceiling-price regulations must be immediately exposed and punished without the slightest leniency. The effectiveness and gravity of state policy must be truly manifested. Only by concerted action throughout the country and the implementation of one and the same policy can ceiling prices be truly effective.

3. In the interest of equitable implementation, the state should set different ex-factory ceiling prices for different large regions, considering the specific conditions of the different regions, whether they are production districts, marketing districts, remote border regions, or backward regions. Greater flexibility in ceiling sales prices should be allowed to all provinces and municipalities.

4. All manufacturers of means of production for which the state has set ceiling prices must, without exception, sell at the highest ex-factory ceiling prices when marketing such products, and the rule allowing production enterprises, when selling to consumers, to use the highest local ceiling prices is abolished, to facilitate supervision, investigation, and implementation.

5. The administrative fee for trading in unplanned means of production may be determined at different rates, according to the specific conditions involved. First consideration shall be given to the price of the commodity. In case of high-priced commodities, the fee may be somewhat lower, while in the case of low-priced commodities, the fee may be appropriately higher. Next, it should be determined according to the economic development of the region, and at different rates for different quality grades of goods.

Presently, there is great confusion about prices for means of production, and prices tend to rise steeply. In response to the demand for curbing excessive inflation, we must resolutely adopt decisive measures to securely and effectively administer and firmly control prices of major

unplanned means of production, so that the national economy may find itself in an excellent economic climate for sound development, and that it will fulfill its objective of controlling commodity prices so that their increases in 1989 will be markedly less than in 1988.

Hunan Price Increases Cancel 'Benefit' of Higher Income

40060412b Beijing JINGJI RIBAO in Chinese
16 Mar 89 p 2

[Article by correspondent Zhong Jin 6988 0513: "Why Must We Have Price Increases in Agricultural Means of Production?"]

[Text] Even though agricultural means of production are this year sold through franchised channels in Hunan, and grain, cotton, and vegetable prices are linked to the fertilizer price and did not move, large price increases have occurred in all other agricultural means of production. According to investigations and computations in the agricultural sector, urea prices increased 54.3 percent, amidonitrogen prices increased 40.8 percent, acephatemet prices increased 162.2 percent, and agricultural plastic film prices increased 45.2 percent. The total amount of all price increases throughout the province were somewhat over 800 million yuan, and increases for chemical fertilizers alone were somewhat over 500 million yuan, which by far cancels out the benefit of the more than 300 million yuan that the peasants gained this year from the increased link to the fertilizer prices and the prices for grain turned over to the state.

The increase in prices for agricultural means of production has become an important problem, which has remained unsolved for a long time. In public discussions, each school of thought has its own reasons, but where is the crux of the problem? Opinions differ.

Factory directors would explain that prices for raw and other materials, such as coal, electricity, and ore have gone up steeply, with no guarantee of getting them at all, which engendered cost increases, which in turn had to increase ex-factory prices. It is reported that the 1988 price of coal delivered to a factory as raw material has increased 29 percent, compared to the 1987 price, and from January last year to January this year has increased another 27 percent. The price of electricity has risen 33 percent, comparing 1988 with 1987, and another 4.5 percent, comparing January this year with last year. According to statistics of the relevant section in the Hunan provincial petrochemical department, all production costs of amidonitrogen have on the average increased 64 percent by January this year compared with the corresponding period last year, which led to an average increase of 44 percent in the current ex-factory price compared with the corresponding period last year. Presently, the ex-factory price for amidonitrogen is still rising continually everywhere, since over half of the enterprises producing calcium-magnesium-phosphate fertilizers are demanding price increases.

Relevant production departments report that out of 79 amidonitrogen manufacturers of the province, only somewhat over 40 have been allocated some coal, and plan allocations of coal will not necessarily be actually delivered. In December last year, out of 79 amidonitrogen-producing enterprises, 26 had to cease production because of an insufficient power supply, and most of the others could operate only half-time. They say the increase in agricultural means of production is due to a wide range of causes, and it would not be fair to blame and accuse only one branch of the economy.

The explanation from the systems involved in the supply and marketing of means of livelihood is that "a boat has to rise when the water rises." If ex-factory prices go up, retail sales prices will of course also go up. Who wants to run a losing business?

In the agricultural sector the question was raised: "Do the increases in raw materials, which are a fact, really have to have as a result so large a magnitude of increases in the prices of agricultural means of production?" It should be figured out. Taking the overall price increase differential into consideration, if newly received merchandise rises in price at a large magnitude, but the overall price increase differential is maintained at the former level without upward movement, it would be irrational to increase prices merely by following the large magnitude of price rises. Besides, the matter of changing the disaster relief fertilizer at parity price into a supply at comprehensive prices is also hard to explain.

As this reporter understands the situation, there are some things in the price increases for agricultural means of production that would really require some rethinking.

Youxian County produced more amidonitrogen than it could sell. And since its production costs were also rather low, it would have been possible to sell it without raising, or by only slightly raising prices. However, when they saw that Hengdong County raised its price of amidonitrogen to 310 yuan per ton, Youxian County too raised its price to 310 yuan per ton.

In the determination of comprehensive sales prices, certain places and cities have much margin in their costs, but treat it as a narrow margin and seize the opportunity to raise prices. The outskirts of Zhuzhou City imported fertilizer from Youxian County and fixed transport charges at 0.20 yuan per ton/km, but when the bill came the charges were 0.35 yuan. Handling charges were fixed at only 2 yuan, but came billed at 4 yuan, which in turn made retail selling price go up.

Factories raise prices to cope with price increases. Commercial enterprises also follow suit. What about the peasants?

FOREIGN TRADE, INVESTMENT

Benefits of 'Internationalizing' Externally Oriented Enterprises

40060373 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
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[Article by Chen Shaolin 7115 0508 2651: "The International Economic Environment and Internationalizing the Business Operations of Externally Oriented Enterprises"]

[Text] I. Major Problems Faced by Externally Oriented Enterprises in the International Economic Environment

The major mission of China's externally oriented enterprises today is expanding exports to earn foreign exchange, importing foreign capital, technologies, and management skills, and utilizing foreign talents and resources to promote China's economic development. The development of externally oriented enterprises is closely linked to the complex and unsteady international environment. Presently, important and profound changes are occurring in the international environment, and under the impetus of the wave of total integration of the entire economic world, daily tightening of bonds within the world economy, mutual penetrations, mutual restraints, and growing mutual dependence, internationalization is constantly on the increase. The advent of the new technological revolution in the world has also greatly affected the world's economic environment. All this has not only opened up new opportunities for development of China's externally oriented enterprises, but also serious challenges:

A. In their efforts to expand exports, externally oriented enterprises face an ever more fierce competition.

On the one hand, because the world economy is presently slowing down, and the growth rate of international trade is declining, competition of increased fierceness will be met with in efforts to expand exports. Economists forecast that during the period from the latter half of the 1980's to the end of the century, the average annual growth rate of the world economy will only be about 3 percent, and the average annual growth rate of international trade will also only be about 3 to 4 percent, always remaining at a low rate. In the limited capacity that the international markets offer, the development of China's externally oriented enterprises will also be facing competition from newly industrialized countries and territories and from other developing countries, so that the struggle in the market will become increasingly intense.

On the other hand, there is a tendency toward protectionism in the developed Western countries, and more and more barriers to trade are going up. These events seriously impede expansion of exports by China's externally oriented enterprises. In the matter of customs barriers, after repeated negotiations and agreements at

international conferences, the average customs rate charged by developed countries on manufactured goods has been reduced to about 5 percent, while some developing countries are being granted preferential treatment under the Generalized System of Preferences [GSP]. However, for many Third World countries, present customs rates are still considered rather high. The reason is that almost all customs agreements of the past were concluded between developed countries, with emphasis on commodities which are of special interest to the developed countries, ignoring the needs of the Third World countries, including China. With regard to the beneficial treatment under the GSP, China has mostly been discriminated against by the United States, Japan, and the EC. Customs tariffs, therefore, have become an obstacle in the development of China's foreign trade and have impeded development of China's externally oriented enterprises. Barriers unrelated to customs tariffs have also had a particularly serious adverse effect on the development of China's foreign trade and the development of its externally oriented enterprises. Hardest hit in this area were textiles, products of the light industry, and primary products; it is particularly these goods which China exports to the Western industrialized countries.

B. The impact of the new technological revolution on exports of China's externally oriented enterprises.

First, following the advent of the world's new technological revolution, the manufacturing industry of developed Western countries gradually shifted toward the service sectors ("industrial erosion"), and the use of raw and other materials greatly declined. At the same time, in line with adjustments of the industrial structure, the proportion of high-tech industries in the manufacturing sectors increased, and their consumption of raw and other materials declined compared with that of the traditional industries, and substitutes for raw and other materials were increasingly used. As a consequence, the overall consumption of raw and semifinished materials declined, and this had a direct negative effect on the expansion of exports of primary products, which was highly detrimental to the externally oriented enterprises whose main exports consist of primary commodities.

Second, the widespread use of microelectronic technologies and increased automation in production have brought about a huge change in the manufacturing industries of the Western industrialized countries: 1) Knowledge and capital speedily replace physical labor. 2) There is a radical shift in the manufacturing industry from labor-intensive industries to knowledge-intensive industries. 3) The proportion of labor costs in the composite costs of products is gradually declining. As a result, labor costs are becoming less effective as a "comparative cost" factor and competitive advantage in the international trade competition, and technology is gradually becoming the crucial competitive factor. This too hampers development of China's externally oriented enterprises which export mainly labor-intensive products.

C. Many developing countries adopt a policy of import substitution, which adversely affects further penetration of the international market by China's externally oriented enterprises.

The developing countries are China's important trading partners. However, in recent years many developing countries are one after the other adopting a policy of import substitution, to reduce reliance on imports, enhance self-reliance, and reduce trade deficits. This new situation makes markets of the developing countries more restrictive and, therefore, has an unfavorable impact, to some extent, on the efforts of China's externally oriented enterprises to further open up international markets.

D. Increasing difficulties in the importation of foreign capital and technologies prevent externally oriented enterprises from exercising their role to the fullest extent.

Importation of foreign capital has recently met with new difficulties: 1) There is a limit to investments in production, and large amounts of investments have been made in the money market as investments in shares and bonds. 2) The flow of international capital has changed course, and direct foreign investments go mainly to the developed countries of Europe and America and partly to the newly industrialized countries and territories. 3) Use of foreign capital is getting more and more costly. 4) Attracting foreign capital has become a competition of international character. In the last 10 or 20 years, when Japan and Asia's "four little dragons" achieved economic development, they became the focus of world attention, and the directional strategy of exports became all the rage at the time, all vying with each other and imitating each other. The competition between developing countries in their effort to attract foreign capital gave foreign investors greater room for selective choice.

In the matter of attracting foreign technologies, the international situation is no longer what it used to be. In the 1960's and 1970's, industrially advanced countries had little misgivings about transferring technologies. They frequently transferred equipment, including technologies of traditional industries, even added loans at easy terms, which was a real boon for Asia's "four little dragons." Today, though, there may be more than a million advanced technologies and patents in the world suitable for transfer, but technologies have become decisive elements in international competitiveness, so that the Western countries, to preserve their head start and monopolistic positions, are adopting various stern restrictive measures with regard to technology transfer. The difficulties of attracting and importing technologies have therefore greatly increased.

II. Effective Response Enabling Further Development of the Externally Oriented Enterprises Is Internationalization

What countermeasures could cope with the above-stated problems, to allow externally oriented enterprises to develop? In our opinion, the correct choice would be promoting internationalization of business operations.

The concept of internationalization of business operations has arisen from the deepening of an international division of labor. Historically, international division of labor has undergone the following development: from a division of labor between the traditional industrial and agricultural countries, it extended to a division of labor between different sectors of industry, from a division of labor between different sectors of industry it extended to a division of labor between departments within the same sector of industry, from a division of labor between departments within the same sector of industry it extended to a division of labor within enterprises which spread out beyond national borders, i.e., division of labor in transnational corporations. As international division of labor extended, it increased dependence of the development of domestic industry and enterprises on the worldwide economy and engendered the so-called "economic internationalization" or "internationalization of business operations" concept.

As far as enterprises are concerned, the internationalization of business operations means: 1) To establish branch organizations abroad through direct international investments, in the form of independently financed enterprises, or as joint ventures, or cooperatively managed enterprises, with international division of labor within the enterprise, and the establishment of a transnational business management system. The products of directly financed enterprises abroad are not only to be exported to the base country on behalf of foreign firms, but are to be gradually developed for local sale and sale to third countries. 2) Through international trade, internationalizing the source markets as well as the sales markets for the enterprise to trade in. A branch organization set up by direct foreign investment would provide the base enterprise with a marketing center abroad, and the international trade could be developed from a mere "base country to foreign country" operation into a "base country to country of branch organization location to third countries" and to "inter-third country" trade. In short, internationalizing business operations would intensify the mutual reliance between the development of the enterprise and the international environment, and would raise the extent of participation in international competition.

Realization of internationalization of business operations will greatly promote development of externally oriented enterprises.

A. Internationalization of business operations will strengthen the capability of externally oriented enterprises to overcome trade barriers.

1. Direct investment in new factories at the location of one's sales market can enable the externally oriented enterprise to successfully overcome trade barriers and expand exports, as long as a certain proportion of local production is achieved. For instance, friction once arose between Japan and the United States about good-quality zippers manufactured cheaply by Yoshida Company in

Japan. In the late 1950's and early 1960's, the United States restricted importation of Yoshida's zippers. In response, Yoshida Company built a factory in the United States in which the semifinished products from Japan were processed into the final products. As a result, there was a conspicuous increase in semifinished zippers exports from Japan to the United States. In the late 1960's and early 1970's, the United States then imposed an import duty on semifinished and finished zippers of 35 percent and 25 percent, respectively. Finally, in 1974, Yoshida Company invested \$15 million in the construction of a full-capacity factory in Macon, Georgia, with the result that they attained a 90-percent share of local production, thus successfully overcoming the customs barrier that had resulted from the original trade friction.

Besides, direct investment in production in one's marketing territory is also beneficial for the externally oriented enterprises in having them become thoroughly familiar with the policies, laws, regulations, and trends of the host country and in improving the capability of the externally oriented enterprise to adapt to the local market.

2. Investment in countries without quotas and establishing branch organizations or factories there may also enable externally oriented enterprises to overcome trade barriers. Measures of trade protectionism are directed mainly against countries in which the production of the imported goods has been well developed. One of the main reasons for Europe and the United States to impose quota restrictions on Chinese textiles is that the Chinese textile industry is fairly well developed, and that China is a large textile-exporting country. Toward countries that are very backward in the production of a certain kind of product, the developed countries will often not impose quota restrictions. It would therefore be gainful to invest in new factories in these countries and export their products to the developed countries, or to set up foreign trade organizations in these countries, and then institute entrepot trade through them to the developed countries.

B. Internationalized operations will promote expansion of exports from the domestic home establishment of the externally oriented enterprises.

Some people may wonder, would not internationalization and expansion of overseas production reduce exports by the domestic home establishment of the externally oriented enterprise? Facts show exactly the opposite. Expansion of production abroad will be followed by increased exports by the domestic home establishment of the enterprise. The Sanyo Denki Company of Japan is a typical example. This company's total sales in 1982 amounted to 1,041.7 billion yen, of which 390 billion yen were from overseas production (28 percent of total sales), 597.2 billion yen (42 percent) were exports of the domestic home establishment of the company, and 429.5 billion yen (30 percent) were sales to the domestic market (domestic requirements). By starting overseas production everywhere in the world, the Sanyo brand

spread over the whole world and exports also increased. Another example is the Honda Motor Company Ltd of Japan. Their exports in 1982 amounted to 67 percent of their total sales, and their exports further smoothly increased after they started car production in the United States and production under patent in Great Britain. The reasons are simple: 1) Expanded overseas production will raise the image of the enterprise and its brand names in the country where the investment is placed, and will counteract any bias of the local population against imported products. It is beneficial for an understanding of local market conditions, local conditions and customs, and consumption habits, so that products will be suitable and well received by the market, and this will, therefore, promote larger exports. 2) In expanding overseas production, it may be possible to separate those commodities that are suitable for export and those that are suitable for manufacture abroad, and in this way it will be possible to develop to the fullest extent an effective international division of labor within the enterprise. 3) It will promote exports of some equipment, semifinished products, parts, components, and devices from the base country. Because our side could introduce equipment and technology as capital stock, and the other side will then frequently put in some investment capital stock to buy our equipment, and renovation and transformation of that equipment will further promote exports, and there will then be a steady buyer for critical primary and auxiliary material, intermediary products, and spare parts and components. 4. It will promote the export of characteristically Chinese traditional arts and crafts and achieve good economic returns. For instance, the roast duck restaurants started by China in Japan, the rice-flour noodle factory in the Philippines, the Chinese furniture factory in Canada, the shrimp farms in New Zealand, the soya sauce factory in the United States, etc., are traditional arts and crafts that would not have been easily accepted by the other side without direct investment and internationalization of business operations.

C. Internationalized business operations are suited to the needs of the developing countries and will help externally oriented enterprises open up markets in the developing countries.

Presently, many developing countries have adopted policies of favorable treatment, while competing with each other to attract foreign capital and technologies. China, as one of the developing countries, maintains excellent diplomatic relations with all the other developing countries, among whom China enjoys very high international prestige. In many areas of technology and handicrafts, China is internationally in a leading position, and since China's level of productive forces is close to theirs, many of its technologies, handicrafts, equipment, and management methods easily adapt to those of the developing countries. If all these Chinese superiorities could be utilized to their best advantage, and direct investment are made in some developing countries in a move to promote internationalizing business operations, it would

precisely meet the needs of the developing countries, and be extremely beneficial for externally oriented enterprises in their efforts to open up markets in the developing countries.

D. Internationalization of business operations is beneficial for allowing the externally oriented enterprises to utilize international managerial resources and to improve international competitiveness.

Internationalization of business operations is beneficial for enabling utilization of resources necessary for business operations, such as foreign capital, technologies, talent, and managerial experience, and natural resources. It is also beneficial in gaining extensive international information and an understanding of the international environment, and in becoming thoroughly familiar with international practices, thereby improving international competitiveness.

1. It will facilitate utilization of foreign capital.

Although presently about \$1 trillion in idle funds are in the international money market seeking investment opportunities, little of this money will be directly invested in China. In a situation of stiff mutual international competition for direct investments, it would anything but a positive policy to sit at home and wait for funds to be delivered to the doorstep. But the internationalization of business operations by externally oriented enterprises will create opportunities for utilization of foreign capital. Because those who will cooperate in the countries in which the investments are placed, especially in the developed countries of Europe and America, will already have their own channels for capital, will be well familiar with the international money market and trade practices, for them it will be easier to raise foreign capital in the international money market. Utilizing foreign capital raised in the international money market, and then again domestically buying intermediary products, primary, and auxiliary materials, would in itself be a form of utilizing foreign capital, and the conditions would be much simpler than attracting foreign merchants to invest directly in China; the risks would also be borne by both sides, the Chinese side and the foreign side. Internationalizing business operations would therefore be beneficial for the utilization of foreign capital.

2. It would be beneficial for the importation of foreign technology, skilled personnel, and managerial experiences.

Generally speaking, it is hardly possible in the ordinary way to attract and import truly salient technologies, persons of highest ability, and advanced managerial experiences. If externally oriented enterprises would accomplish internationalization in their business operations and start business ventures abroad, it may be possible to allow industrial manufacturing rights, know-how, and managerial experiences to be brought in as intellectual-share investments, and thus induce the other

side to contribute without reserve salient technologies and managerial experience. It could also have scientific and technological personnel on our side, bypassing technology export controls, and becoming familiar with truly advanced technologies and handicrafts, which they will then later bring back to China.

3. It will be beneficial for utilizing foreign natural resources, thus overcoming the restraints of domestic shortages of natural resources.

Although China is a vast territory with abundant natural resources, its population is so large that the average per capita amount of natural resources is far below the world average. Moreover, since the resources are unevenly distributed, it is a problem that some districts (e.g., some of the coastal regions) are seriously short of natural resources, while other areas have a "relative overabundance." In the course of China's economic development, many shortages of raw and other materials have been very clearly revealed, as they were restricting stable development of the economy. According to statistics, about 20 to 30 percent of China's industrial production capacity remains idle because of energy shortages. If business operations were internationalized, and stable bases or markets for raw and other materials were set up abroad, externally oriented enterprises would not have to suffer from domestic shortages of natural resources, and it would help alleviate China's overall shortages of energy, as well as of raw and other materials. Most recently, the projects for development of natural resources, such as forestry, fishery, and mining projects started by China's externally oriented enterprises in Brazil, the United States, New Zealand, Australia, and West Africa, have indeed made a certain contribution toward mitigating China's shortages in natural resources.

4. It is beneficial in familiarizing externally oriented enterprises with international information, to have them understand market conditions and become thoroughly familiar with local conditions and international trade practices.

Externally oriented enterprises that achieve internationalization of business operations will have branch organizations abroad and a transnational business management system. They will collect locally and internationally all relevant information, thus being in an advantageous position with respect to seasonal events, geographical advantages, and human cooperation.

5. It is beneficial for training a large contingent of business executives who can be powerful agents on the international economic stage with the externally oriented enterprises.

Highly qualified personnel are the key to greater international competitiveness and to the opening up of international markets. On internationalizing business operations, the externally oriented enterprises can use their

overseas branch organizations or cooperative organizations as bases for the training of skilled personnel, sending groups of promising skilled personnel for training in the international environment to improve their abilities. This would be extremely beneficial for the training of a large contingent of "externally oriented" business executives of high ideological-political quality, proficient in foreign languages, familiar with foreign trade and enterprise management, good at public relations, and with the boldness to break new ground.

To sum up, instituting internationalization of business operations will have the effect of giving strong impetus to the future development of externally oriented enterprises. Many of China's externally oriented enterprises possess a sound material foundation, much technological strength, and the technology, handicraft skill, and equipment. Many trades have certain distinctive qualities, some are internationally in leading position, well adapted to the needs of foreign countries. In recent years, China has set up many business organizations abroad and accumulated certain experiences in internationalized business operations. There are, furthermore, many overseas Chinese and people of Chinese extraction all over the world who are bound with countless ties to China, and are an important force to draw support from by externally oriented enterprises for the internationalization of their business operations. Besides, the Sino-foreign joint ventures established in recent years can also constitute a useful element. All this clearly indicates that internationalization of operations of China's externally oriented enterprises is not only necessary but also altogether feasible.

Externally Oriented Economy Urged for East, West Regions

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[Article by Hsu Jianfeng 1776 0494 1496: "Thoughts About China's Two-Tier East-West Externally Oriented Development Strategy"]

[Text] Should China take the road of externally oriented economic development? Should development be partially or completely externally oriented? How should the tactics for an externally oriented economy be chosen? There is considerable controversy about these questions among people in all walks of life both in China and abroad. The writer believes that China's economy should have an external orientation, and that a two-tier externally oriented development strategy should be adopted for the near and intermediate term.

I. Meaning and Types of Externally Oriented Economies

External economic orientation means setting the goal of linking China's economy to the world economy and encouraging or tending to encourage international

exchanges of commodities, capital, technology, and skilled personnel, instituting a system of open economic contact. This external orientation may be of three types, namely primary external orientation, externally oriented production, and an externally oriented economy. By primary external orientation is meant stimulating the export of primary products and semifinished manufactures in order to accumulate foreign exchange to advance industrial development, the volume of exports amounting to a substantial portion of domestic product. The domestic price system is linked to external prices; however, exports consist mostly of a small number of natural resource products, the government regularly adopting attendant primary-level export guidance policies. This type of external orientation is typical of developing countries in which production is backward and capital is scarce, but natural resources are plentiful. Externally oriented production is characterized by the importation of capital and technology, and the export of manufactures, the government adopting secondary export guidance trade policies, and actively encouraging the export of manufactures to spur development of domestic industries. Exports account for a high percentage of the gross value of domestic production, the domestic economy depending on foreign markets. Direct foreign investment and imports of foreign capital play a major role in economic development, domestic production being subsumed into the international production system. The "four little dragons" of Asia are representative of countries and regions in this category. An externally oriented economy melds the entire national economy and the world economy into one, and the government substantially pursues a completely open policy with both large imports and large exports of capital, commodities, and skilled personnel. The national market is also an important and integral part of the international market, and the country's currency becomes a freely exchangeable world currency. Countries with developed market economies, such as the United States and the United Kingdom, belong primarily in this category.

II. Thoughts About a Two-Tier, East-West External Orientation Strategy

A two-tier, east-west external orientation strategy means conducting mostly externally oriented production and primary externally oriented strategies along China's east coast and in the resource-rich western region, respectively. In addition, on the basis of its own dynamic comparative advantages and the country's need for macroeconomic returns, each region chooses its leading industries and correctly formulates a foreign trade development strategy, thereby enabling the country to attain highly effective coordinated development of the economy.

A. Combination of Coastal Region Externally Oriented Production and Western Region Primary External Orientation

Since the institution in 1979 of the opening to the outside world, China's coastal region has seen rapid development of its export trade, some of its industries becoming rather closely linked to international markets. Nevertheless, it still offers only a small variety of export commodities, mostly agricultural and mineral products, and rough processed goods. Exports are mainly for the purpose of accumulating the foreign exchange needed for imports. This demonstrates that the country's coastal region has pursued a primary export orientation strategy during the past several years. As the structure of the country's coastal region industry improves, as export commodities become more competitive, and as the international economic situation develops and changes, China's coastal region will have to be able to move its economy to a higher level of foreign orientation, and institute an externally oriented production strategy in order to be able to take part in an international division of labor through the importation of capital and technology, and the export of manufactures. Industry is backward and capital is lacking in China's western region, but natural resources are relatively plentiful. The key to development of the west lies in accelerating the exploitation and use of natural resources. However, the availability of capital and the level of technology limit the extent to which the west's natural resources can be taken advantage of. Therefore, the western part of the country should follow a primary external-orientation development strategy, assimilating direct investment from abroad, importing capital and advanced techniques, developing local natural resources, and further developing the processing and export of resource-intensive products in order to achieve an economic take-off. The vast middle section of the country should pursue an internally oriented development strategy that uses domestic natural resources and a plentiful labor force for priority development of processing industries to take over domestic markets, while simultaneously actively developing both entrepot and direct exports to the eastern parts of the country as a means of accumulating production funds, and of building an industrial base in preparation for a future externally oriented shift and improvement of its production mix.

The economy of eastern, central, and western China should be an organic whole. All three regions should actively promote the exchange of commodities, capital, technology, skilled personnel, and information, and they should coordinate their development tactics. The eastern and western regions should help bring along the central region, and the central region should stimulate a diversified, dual-oriented development effect in the eastern and western regions, the economic returns produced by the external orientation of the eastern and western parts of the country being rapidly transmitted to the central section, and the benefits generated by the central section's economic development being very rapidly transmitted to the eastern and western sections, thereby generating benefits on a scale of $1 + 1 + 1$ is greater than 3. Moreover, the risks of external orientation of the eastern and western parts of the country, and setbacks to

the development of production inland can be reduced and offset by the vast domestic market or the international market, thereby achieving the effect of $1 + 1 + 1$ being less than 3 with regard to risks.

B. Combination of an Export-Led and an Import Substitution Trade Development Strategy

Generally speaking, primary-oriented countries or regions pursue a mostly primary export-led trade development strategy. Countries and regions that pursue an externally oriented production strategy adopt a secondary export-led trade development strategy. Internally oriented countries or regions pursue mostly an import substitution trade policy. However, inasmuch as China's economic development strategy cannot be either completely internally oriented or externally oriented, but rather is partly internally oriented and partly externally oriented, and since there are both areas having internally oriented and externally oriented development strategies located in a single common domestic market, there is bound to be a free flow of commodities as well as all elements of production in the three regions of the country—east, central, and west—based on the laws of market supply and demand. After the eastern part of the country adopts a manufactures export-led trade policy, some domestic markets will experience temporary shortages. Since product competition is very weak in the middle region of the country, foreign products will thus readily penetrate the vast inland market. Young inland industries will consequently be hard put to find protection and to develop. Therefore, a shift by the eastern region to externally oriented and not fully open markets can open markets to a certain extent for domestically produced commodities that lack dynamically comparative advantages and that are in short supply. However, commodities that come in conflict with the leading industries that China is developing, particularly such products coming from countries and regions whose level of productivity and industrial structure approximates our own, must be strictly limited so that the drawing power of China's markets benefits China's industry and not that of China's competitors. Therefore, when China's eastern region institutes an externally oriented production development strategy, it will have to adopt a trade policy that is mostly export-led, augmented by import substitution. In fact, both Japan and the "four small dragons" of Asia use an import substitution policy in combination with an export-led orientation. In the western part of the country, the economy remains basically in the traditional agriculture era, the industrial foundation is weak, processing industries are particularly antiquated, and it is difficult to produce most products locally. Consequently, export-led tactics must be used in combination with import substitution, limiting the importation of foreign consumption goods in order to conserve foreign exchange. When the central region institutes an import substitution policy for vigorous development of the country's domestic market, and emphasizes the opening of international markets, it should cooperate more with the eastern region in the

division of labor, actively assimilate foreign investment, and pay attention to the processing for export of local agricultural and sideline products. Some central regions having a better economic foundation and available transportation, such as Wuhan and Chongqing, may pursue a trade development policy that is export-led, in combination with import substitution. While spurring and leading production within the region to take over domestic markets, they can strive to become externally oriented and directly occupy a place in the international market.

C. Selection of Externally Oriented Leading Industries

Leading industries play a crucial role in the development of a region's external economic orientation. How should China's eastern and western regions select externally oriented leading industries? Some people suppose that China's goal in pursuing an externally oriented development strategy is to develop processing industries, and to accumulate foreign exchange and eradicate duality in the industrial structure. Thus, they advocate the development of "three forms of import processing and compensation trade," making light processing industries the country's externally oriented leading industries. The writer maintains that this point of view is slanted, and does not benefit the long-term development of China's industry.

The main basis for regions' selection of externally oriented leading industries should be dynamic comparative advantages, all-around associated industrial performance, and macroeconomic returns. Different externally oriented regions of the country should select the optimum industrial structure on the basis of their own specific circumstances. In the coastal region of China's northeastern provinces, particularly in Liaoning, the foundation for light industry is weak, but heavy industry is relatively developed. Added value for heavy chemical industrial products is high, associated industrial performance is great, and domestic supply and demand conflicts are relatively moderate, while sales volume on the international market is large, and competition relatively slight. Development of exports in heavy chemical industrial products is relatively easy and economic returns are high. Therefore, places like Liaoning might select basic processed-materials industries and machine industries as their dominant externally oriented industries. For Shanghai and southern Jiangsu Province, electromechanical industries hold a dynamic comparative advantage, the associated performance of electromechanical industries is large, and economic returns from the export of products are high; therefore, places like Shanghai should pick assembly and processing industries such as the electromechanical industry as leading industries, simultaneously using light and textile industries as near-term externally oriented mainstay industries. This will provide positive impetus for the development of sustained, stable, and highly beneficial production in Shanghai. Were these areas to spend additional large amounts of time and capital on "three forms of import

processing and compensation trade," and compete with Guangdong and Fujian Provinces to get work, they would lose existing industrial advantages and find entry into international markets difficult. The farflung townships and towns along the coast can rely on nearby cities, and take over the relatively low-level techniques and equipment that these cities transfer for energetic development of industries to process imported materials, playing the part of externally oriented processing sites for core cities, and using entrepot export and direct export of labor-intensive products to spur development of industries. Since the foundation for heavy industry is weak, and light industry is relatively well developed in Guangdong and Fujian, these provinces should make full use of abundant labor and their proximity to Hong Kong and Taiwan markets, and the advantage they enjoy in that numerous overseas Chinese are from these provinces for vigorous launching of the "three forms of import processing and compensation trade." They should start with food processing and clothing, while at the same time losing no opportunity to develop assembly and processing industries, such as household appliance industries, through the importation of skills and techniques from other countries and regions. The vast western region of the country should begin with the exploitation and use of natural resources, first using imported foreign capital and the leasing of resources to develop extraction industries such as petroleum and coal mining. At the same time, they should pay extremely close attention to the livestock-processing industry, especially to the development of the wool-spinning industry, meat-processing industry, and the leather industry. However, some enclave cities in the western region, such as Xian and Lanzhou, can select fairly high-level leading industries on the basis of the character of their own industry.

In selecting externally oriented leading industries, China's eastern and western regions should take part in a division of labor for domestic production based on the two principles of comparative interests and national macroeconomic returns, identifying primary industry advantages. This requires that the industrial structure in all areas be in keeping with overall needs for national industrial development, each jurisdiction avoiding development in isolation, and preventing selection by too many jurisdictions of identical externally oriented leading industries with the resultant excessive collisions in domestic and international markets. When externally oriented development areas take part in a division of labor for international production, and identify secondary industries, special attention should be given to changes in the international market demand structure, and the trend of development of the industrial structure in competing countries. Industries that genuinely possess dynamic comparative advantages are to be selected as externally oriented leading industries. At the same time, they must be in keeping with requirements for short-term economic performance, and the selection of industries identical with those of leading competitors, particularly the "four little dragons" of Asia and some ASEAN countries, should be avoided since this might lead to an

intensification of competition with regard to popular goods in international markets. If an identical industrial structure is chosen, efforts must be made to make changes in basically identical products, doing all possible to avoid the cutting edge of competition in order to guard against starting off on the wrong foot while waiting for a propitious opportunity to take the initiative in readjusting the industrial structure.

III. Basis for Implementing a Two-Tier, East-West Externally Oriented Development Strategy

Pursuit of different externally oriented development strategies by the eastern and western sections of the country results from anomalies inherent in the country's economic structure; at the same time, development of the external economic situation requires it.

A. Adoption of a two-tier, east-west externally oriented development strategy results from imbalances inherent in the country's economic structure.

A country or a region's economic structure is made up primarily of the essential supply structure, the industrial structure, and the demand structure. Under a market economy mechanism, the essential supply structure, industrial structure and demand structure are closely related and interacting, thereby achieving internal balance in the economic structure. In China, however, the vast distances, the incremental decline in availability of natural resources from west to east, and the gradual rise in the excellence of industry and population density from west to east, as well as the longstanding use of a closed, centralized planning system that locked all jurisdictions into a unified domestic market, unavoidably produced imbalances in the economic structure of each jurisdiction.

The coastal region in the eastern part of the country has a good industrial base; the industrial structure is relatively advanced; and the labor force is both abundant and of relatively high quality. However, capital and natural resources are lacking, while at the same time, the region is restricted by the domestic low-level demand structure. This makes it difficult to improve production efficiency and product quality. The relative lag in the essential supply structure and the demand structure restricts high-level development of the eastern region's industrial structure. The situation in the central region of the country is utterly different. Since industry in the central region is relatively backward, while natural resources are more abundant than in the eastern region, the disjunction between the industrial structure and the essential supply structure in the central region is not serious. However, under the centrally planned system, per capita income in the central region is no lower than in the eastern region. Also, because of the state's egalitarian and indiscriminate transfer of resources from the central region, plus the lack of skilled personnel in the central region, the demand structure is relatively far ahead while the essential supply structure is relatively

behind. Because the supply structure lags, the relatively more advanced demand structure is unable to guide and give impetus to the production structure. Instead, operation of the laws of market value produce an influx of large quantities of goods from the eastern region. The loss of natural resources and skilled personnel intensifies the conflicts inherent in the central region's economic structure, and puts a damper on the development of local industrial production and improvement of the industrial structure. Technology is backward in China's western region, and a work force of fairly high quality is lacking. A shortage of capital and technology makes it impossible to exploit the potential advantages provided by abundant natural resources. At the same time, however, thanks to government financial support, per capita income in the western region is no lower than in the eastern region. This generates serious dislocations in the west's demand structure and essential supply structure, as well as in the industrial structure, meaning mostly agriculture. Locked in a closed system, the economy of the western region is virtually at a standstill except for a few enclaves.

The internal imbalance in the country's economic structure creates low efficiency in the economy and inconsistency in the development of production. The national government is trying to improve the industrial structure of the central and western regions, and the essential supply structure of the eastern region through increased investment in heavy chemical industries in the central and western regions, and by giving priority to the supply of raw and processed materials in the east. However, because of the limitations of capital, technology and natural resources, a balanced development strategy for such closed off regions cannot eradicate inherent imbalances in the economic structure of each region. Consequently, elimination of imbalances inherent in the economic structure can only be done with the assistance of external markets that break down the closed system. This means that all regions have to institute different development strategies and select corresponding industrial structures. The eastern region's practice of an externally oriented production strategy, with large-scale importation of capital, technical equipment, and raw and processed materials in short supply in the country, in order to be able to export large amounts of technology-intensive and labor-intensive products will make it possible to link the relatively advanced industrial structure in the region with both the relatively high foreign-demand structure and the essential supply structure. Then the western region can import foreign capital and advanced techniques to build extraction industries, accumulate the capital needed to develop production, and then go on to develop resource-intensive processing industries and basic processed-materials industries, taking the first steps from traditional agriculture toward modern industry. The externally oriented development of the eastern and western regions will mean that their will be a relative increase in capital and the supply of resources in the central region, and the product sales market will increase, thereby enabling the central region to orient

itself to the domestic market and use economies of scale to realize the rapid and highly effective development of industry. Simultaneous with pursuit of different development strategies, the eastern, central, and western regions of the country will have to take part in the great domestic economic cycle, and use domestic markets. They will have to mutually promote and link the essential supply structure and the demand structure, and their industrial policies will have to be coordinated in order to eliminate imbalances inherent in the economic structure and avoid waste of energy, while simultaneously being able to produce multiple internally and externally oriented development results, and wide-ranging industrially associated performance.

B. Adoption of a two-tier, east-west externally oriented development strategy is necessary for development of the international economic situation.

After World War II, the world economic structure underwent several major readjustments. The first one ran from the mid-1950's to the early 1960's. The rapid development of the West European economy at that time led to intense trade competition between the United States and Western Europe, and a large-scale movement of capital. This produced a major readjustment of both the American and the West European industrial structures. Japan and Italy took advantage of this fortuitous opportunity to employ an externally oriented production strategy, in which light industry and basic materials industries were paramount, for rapid development of their economies. Japan's success made it become the first golden ring in East Asia. The second readjustment occurred during the late 1960's and the early 1970's when an international monetary crisis, followed by the Middle East petroleum crisis, erupted, causing a slump in the European and American economies and the abrupt rise of Japan. During this period, very great changes occurred in the direction of flow of the world's commodities and capital, and developed countries made large-scale readjustments in their production structure, their essential supply structure, and their demand structure. During this readjustment, Japan became a world economic power by upgrading from light processing industries and basic materials industries to electromechanical industries. The United States and the United Kingdom, on the other hand, lost much of their vigor as a result of failure to readjust their production structures properly. Countries and regions such as the "four little dragons" of Asia and Brazil earned their credentials to enter the industrialized world as a result of their externally oriented production, or primary externally oriented development strategies. The

rapid development of the "four little dragons" of Asia made them the second golden ring in East Asia.

Since the beginning of the 1980's, trade competition among the United States, Japan, and Western Europe has become increasingly intense, and once again a great change has taken place in the direction of flow of commodities and capital. Japan, the United States, and Western Europe, as well as newly industrialized countries and regions have undertaken large-scale readjustments of their home economies. The USSR and Eastern Europe, as well as other socialist countries, have also entered the current of reform and opening to the outside world. This shows clearly that the biggest and final period of major worldwide economic restructuring of the century has arrived. Southeast Asia, South Asia, and Latin America, as well as some developing countries in Africa are hurriedly readjusting their development strategies. They are shifting their home economies toward external markets in an effort to seize this readjustment opportunity. In Asia, Thailand, Malaysia, and Guangdong Province in China have scored initial successes as a result of several years of externally oriented development, showing that the third golden ring in East Asia will move once again from Japan and the insular and peninsular "four little tigers" of Asia westward to the edge of the Asian continent. Before the train of industrialization flashes by and disappears in an instant, China cannot require that all jurisdictions march in step toward balanced development. Each region must be allowed to pursue a different development strategy, and those having the capability must be allowed to move ahead. If Japan, the "four little dragons" of Asia, and Brazil were able to succeed through an externally oriented production strategy, then why should not the eastern region of China in which the situation is similar also be able to achieve rapid development through adoption of an externally oriented development strategy? Australia, New Zealand, Mexico, and Malaysia all used a resource-intensive, export-led strategy to industrialize and achieve substantial development of their economies, so the western region of China should be even better able to achieve an economic takeoff through a primary external orientation development strategy, and through close cooperation with the eastern and central regions of the country. Eastern and western regional success with externally oriented development can not only energize and encourage other regions, but also enable them to sprint ahead. If we miss this opportunity again, we will lose more than 10 years, and if we wait until the next train goes by, we will find that it is traveling faster, that the track is more crowded, and that difficulties in getting aboard the industrialization train will be much greater.

AGRICULTURE

Anhui Cotton Procurement Prices

40060501e Hefei ANHUI RIBAO in Chinese
27 Mar 89 p 1

[Summary] Anhui Province will increase the procurement price for ginned cotton from 176.42 yuan per dan to 236.42 yuan. In 1989 the planned cotton area in Anhui is 4,100,000 mu.

Anhui Tea Output, Export Figures

40060501d Hefei ANHUI RIBAO in Chinese
31 Mar 89 p 4

[Summary] At present, Anhui Province has 1,740,000 mu of tea plantations and annual output is 1 million dan. In 1988 Anhui exported \$32 million worth of tea. In 1988 the provincial government gave the Anhui Tea Import and Export Corporation a specialized loan worth 45 million yuan to fulfill the procurement task for tea exports.

Self-Financed Overseas Students Frustrated

Overseas Students Face Difficulties

40050321a Beijing XIN GUANCHA [NEW
OBSERVER] in Chinese No 2, 25 Jan 89 p 16

[Article by Fang Jun 2455 6511: "The Anxiety of Self-Financed Overseas Students"]

[Text] The number of students going to Japan for study is constantly increasing, which has led to concern in all areas of society.

Because of my work, I am in daily conversation with many students applying to go to Japan for study. For a time, there were 20-30 persons processing visas each day for self-financed study abroad at the consular section of the Japanese Embassy in Beijing, and they had come from more than a dozen provinces, municipalities, and autonomous regions. For many Chinese, this kind of opportunity has been something one could only dream of. But I began to feel during my contacts with these people that, although they are much envied by others, they themselves are not so happy. The moment they receive their visas, their reactions are mixed; one person even burst out, "I've been swept out the door!"

"While study abroad for 2-3 years is but a moment in one's lifetime, there is an old Chinese saying: life is like a dream, where 100 years pass in but an instant. The 2-3 years spent 'in the nest' are still not as good as pushing on with things," a self-financed overseas student has told me.

We can see that the role of overseas student is certainly not what each would have chosen as an ideal course. Time and again the State Education Commission has stated that as far as support for self-financed students is concerned, both government-financed and self-financed overseas students will be treated similarly. But the actual situation has not turned out that way.

The government-financed overseas student can retain such benefits as domestic salary, living quarters, accumulated time in service, position evaluations, and child care. While abroad, one receives the 170,000-yen scholarship provided by the Japanese Ministry of Education, or the approximately 150,000-yen scholarship offered by China. From the time self-financed overseas students begin application for their visas, it is as if they give up everything they own in China. They must pay training fees to their unit, and give up their housing and their public employment. Many people need to sell their household belongings and try to make ends meet in any way possible. Some are still awaiting the Japanese visa a year and a half later. Some are immediately rejected by the Japanese Ministry of Justice. And there are those who return after their studies only to find no work and who have no choice but to leave again.

What is really difficult to understand is that the residence registration of overseas students is cancelled. On this point, we are exactly the opposite of Japan. I once met some Japanese students who had come to China for study, and their household registration still had their own names. Should we not take a look at the way Japan does this?

For those people who are applying to be self-financed students, the lives they lead are often seriously affected for various reasons. The first thing they must face is the leadership of their units. Many who have applied to be self-financed students have complained that all they have to do is mention such applications in their units and they are immediately treated differently. There must be discussion after discussion, study after study, and then they must always pull strings and give gifts. Finally, it is quite possible that the price will be the loss of their position and housing and payments of money. Events after this are like a chain reaction: you can only progress link by link, but you cannot pass over any link. And if any one link gets sticky, everything comes to a halt. At these times it can be very difficult to give up and go back to the way things were, and this is because one's former unit no longer welcomes these people who are of two minds. No wonder overseas students look for opportunities abroad, postponing their return to China.

A reporter named Hamamoto at the YOMIURI SHIMBUN, working out of Shanghai, has reported that before September 1988, 24,838 people had been issued visas by the office of the Japanese Consulate General in Shanghai alone, which was more than double the 11,949 people for all of the previous year. There are now more than 30,000-40,000 people in Shanghai who have applied to go to Japan and who are awaiting either passports or visas, 97 percent of whom are self-financed overseas students.

In October 1988 certain schools in Japan increased the number of documents needed to be examined and issued before going to Japan for study, and again increased the fees for such study, as well as requiring that each overseas student have certification of 300,000 yen in savings. For those in the process of applying to be self-financed overseas students in Japan, this was a bolt from the blue: they no longer had jobs, they had sold all their belongings, they had paid their first term's tuition, and with this change in policy they could neither go on nor go back. Immediately there were sit-ins in front of the gates of the Shanghai Japanese Consulate General that have erupted into chaos. To deal with this tense situation, Shanghai Municipality decided to allow those people (some 30,000) to recover their former positions in their former units. We can see that resignation is not a wise move.

There are a few notes on my desk: the age of overseas students ranges between 16-47, among whom the ages of men at all age levels is higher than for women. Among the men, a majority are quite innovative and have

foresight and above-average intelligence, while among women the majority are attractive and fond of independent thinking and views. More than half have been college undergraduates, and the professions are not only those of common engineers, teachers, doctors, editors, artists, and outstanding athletes, but are also ordinary workers, farmers, members of individual households, and unemployed youth, a class of people who in their particular social circles have no desire to "stick to the old ways" or to follow the beaten track. After a survey, a reporter for the Japanese SANKEI SHIMBUN described them as "belonging to a superior group."

So it is that these people, who have abandoned their homes and left their jobs and been cast adrift to cross the ocean where they must find residences, eat, and pay school fees, must all earn their living by working. The Japanese Government has certain provisions: "The student must return to his native country if he is not enrolled for a sufficient amount of any one term," "A student must return to his native country if he has not passed a college entrance examination within 2 years," and "A student may work only 20 hours per week." A Japanese newspaper reported that: "Deterioration of the health of many self-financed overseas students is because their living expenses are not covered by what their work brings in." The overseas students are under pressure from both within their country and outside it, and this situation should be looked into.

For these reasons, the overseas students whom I have met are dissatisfied with the sentiments expressed in domestic public opinion. Leaving the country for study is not an example of seeking after quick success and instant benefits, for they are an important component of the general principles and policies of China's restructuring and liberalization. Only when the gates are open can people come in and go out, and inside and out of the gates where this human current ebbs and flows, some will rush in, some will sink, and history will march forward among the waves. We are fortunate that relevant departments have begun to look into this problem. At the expanded full session of leading cadre of the State Education Commission that convened at the end of last year, it was proposed that: "This task of leaving the country to study should rank more highly and should be seen from the greater perspective, for not only must we be concerned with the needs of our current national reconstruction, but this is also linked to the advantageous strategic international positions we are seeking for the 21st century."

People frequently exclaim: "Dunhuang research is in Japan, Jingde pottery is in Japan, Chinese medicine and pharmacology are in Japan, and studies on the Chinese economy are easily done there....So after all are there more Japanese who understand China or more Chinese who understand Japan? After World War II, there were more than 10,000 Japanese studying abroad each year, and according to statistics, 99 percent returned home after their studies. They then created the Japan of today.

I have been working with Japanese officials in Beijing for several years now. I am quite aware that the Japanese Government is putting great effort into developing leading-edge science and technology, their intention being to transform their "country of technology" into a "country of trade" and a "country of culture." They have also drawn up plans to expand the number of students going to Japan for study to 100,000, which would be on a par with the United States. The Japanese Education Ministry, Justice Ministry, and Foreign Affairs Ministry are all quite aware of this overseas student problem, and they are constantly revising, updating, and strengthening a series of principles and policies involving investigation and monitoring of schools and guarantors to make these measures more complete. After the Japanese raised fees for study in Japan and made their regulations stricter, it is estimated that within a certain period of time there will be a reduction in the number of Chinese going to Japan for study, but that the levels of knowledge for those students will get progressively higher. What should we do about this? The trend toward liberalization and restructuring has been set, and the national gates that have been opened cannot be reclosed. How, then, should we create a way for students to go abroad for study without regrets and an environment that makes it worthwhile to return?

Analysis of Overseas Study 'Fad'

40050321a Beijing XIN GUANCHU [NEW
OBSERVER] in Chinese No 3 10 Feb 89 pp 12-13

[Article by Pan Yong 3382 3057: "The Latest Craze: Shanghai Youth Leave China as Self-Financed Students"]

[Text] Since the beginning of the year, a tendency for Shanghai students to set their hearts on leaving China has become the trend, the destinations being the United States, France, Italy, Australia, Norway, Canada, and Japan, with the majority going to Japan, primarily because the path to our eastern neighbor is closest. At present, people are crowding together, jostling each other at the gate to the Japanese Consulate in Shanghai, and those who are awaiting visas from that office appear to be a crowd in line at a train station to buy tickets, for they are carrying straw mats, deck chairs, and bed rolls to wait in line all night long. This phenomenon has been called the "exit China craze," and it might rival the "panic-purchasing craze" that hit a few days ago when commodity prices shot up. This "exit China craze," also being called a "spiritual landslide," presents an interesting contrast to the "financial landslide" of recent years.

The number of people who left China from Shanghai during the first half of last year was already a 300-percent increase over the previous year, and among them, those applying to go to Japan rose 1,000 percent from the previous year. It is said that the number for the last half of 1988 is yet another 100-percent increase over that for the first half. One feature of this rush to leave the country is that the great majority are doing so with their own

money. To look at those applying to go to Japan, for example, 98 percent of that group is self-financed. What is more, the majority of those leaving have no relatives in Japan, so they are going to have to work and study Japanese at the same time, getting caught up by the rush to go abroad.

There is a great deal of talk these days about this "exit China craze," although no consensus has emerged. Some people feel that this is a phenomenon arising from the fact that contemporary youth are envious of foreign high-consumption lifestyles and that they lack confidence in China; some people feel that there are too many people in China, that the labor force is excessive, and that going abroad on work-study programs with an eye toward getting ahead can after all be accepted as a prospect for their future; some people feel that young people like to broaden their horizons, to see the world, and that should be all right; and some feel that morale is not high in China, and that this represents a decline in moral integrity.

The appearance of these debates and opinions is understandable from the current situation. As we look at the composition of those persons leaving China these days from Shanghai, more than three-fourths are employed in state-run or collective enterprises, while many are also regular graduates of higher institutions, ages are generally 20-30, and most are not older than 35. Some have not married, some have married and apply together to leave the country, some have married and have a child. A wife might be supporting her husband's exit, and relatives and friends might also be helping. This is because the burdens on these self-financed persons who go abroad are not insignificant, as for just one person it costs an average of the huge sum of 15,000 yuan. For a youth who has just begun work or who is yet awaiting work, it is quite difficult to come up with this kind of money all at once. The sources of these funds are pledges from the father, mother, brothers, sisters, relatives, and good friends, the conditions being that it is promised that after arrival in Japan, the Japanese yen in foreign currency that is earned will be repaid to them in foreign exchange certificates. Goods in short supply that cannot be bought with Renminbi (RMB), color televisions and refrigerators, for example, can be conveniently purchased as high-quality Japanese household goods when one has Japanese yen, nor will that money lose its value. This is better than guaranteed savings, so under the premise of acting on behalf of the relationship, they offer support, but for their own gain without risk. Therefore, in this situation of domestic inflation and devaluing of RMB, it comes out as if they are acting on behalf of the relationship. The economic backdrop to this "exit China craze" is really the same thing as the "panic-purchasing craze," but under a different name.

Why are Shanghai youth going primarily to Japan as self-financed students? Their reasons are many, but this is primarily due to great increases in public personal savings in Japan. To increase the levels of consumption

of the Japanese public, there has been great encouragement to open such private economy service industries as bars, dance halls, restaurants, nightclubs, and amusement parks. Income from wages for this group of small-scale enterprises is rather low when compared to the national wage standard in Japan, and the social position arising from the nature of the work is also quite low, so the average Japanese of some standing is not willing to get involved, which has then led to a shortage of workers. Wages from employment within China are universally low, and when compared to the wages that these small Japanese enterprises are willing to pay, it is several times that available in China, and therefore the average youth capable of labor is willing to lower his standing and social position to make a living in Japan and earn Japanese yen. They say, "wages in China (meaning Shanghai at the present time) are so low that working for 1-2 years would not be enough to buy a color television, and even if we have the money it might not be available for awhile." By working in Japan for 2-3 months, the youth can buy the color television. After working hard for a few years, their horizons will have been broadened, they will have learned to speak Japanese, acquired a few Japanese household goods, so what could be better than that?" Some say, "We will not begrudge working as cows and horses because when we come back we can live in a dignified and comfortable way...." It is even more likely that people who were sent into the countryside during the Cultural Revolution will feel that "in the past we endured 'becoming part of a local production team,' so if we now 'become part of foreign production teams' for two years, there's no big difference to us." Some of the people who have been released from such situations have been among the most active about going to Japan, and speak of themselves as "leaving the country to be reformed through labor."

As far as the generation of the parents of these youth is concerned, each has his intentions for his support. Some people feel that "if our children go abroad, they can acquire skills China does not have, and when they come back they will have the experience of having lived abroad and people will regard them with respect. And it will be far more convenient for them to find work with the Sino-foreign joint ventures and the wholly foreign-owned enterprises." Some feel that "it is better to lend children the money than to have them hanging around Shanghai waiting for work and getting on their parents' nerves. By supporting and helping them to leave the country, when they come back in 2-3 years, they will bring back a lot of foreign currency, and there is no worry that they will renege on the loans or disassociate themselves from the family." And the Japanese Government needs a low-class labor force, so if you are willing to lower your position to go to Japan to work and earn money, that will supplement the unwilling Japanese labor force and will also promote the sale of Japanese products, which is also quite welcome.

These are the internal reasons that have led to this exodus from China.

The current "exit China craze" whereby Shanghai youth go to Japan is just now under way, and all articles and publications that touch on this issue of leaving the country are welcomed by the youths and family elders. Once they are out, they go mad with buying. During the first stage, when it was fashionable to promote college diplomas within China, those involved with libraries were alarmed, for guides to higher exams and review materials would generate long lines as soon as they became available. But in Shanghai today, this diploma fad has been replaced by the "exit China craze," and we may say that it has become irresistible.

The fad for leaving China that has affected Shanghai youth has not been welcomed by enterprise leaders. It is just like the fad of the past when young people left work temporarily to attend college, which just brought headaches to the factory directors and managers. Why? Because the majority of these young people are rather intelligent and skilled, and they are specialists. Some are graduates of vocational schools or colleges, and have had significant levels of education. Their leaving the country affects professional skilled personnel in positions within the enterprises, for if even the key people join the exodus, this will strike a blow to enterprises. For these reasons, leaders are unwilling to bend, which has led to conflicts between enterprise leaders and staff applying to leave the country. But for the moment, hiring and quitting are voluntary for both the employer and the employee. The enterprise cannot keep the employee if the employee wants to quit, or draw up inflexible rules that will not allow the resignation. For this reason, the enterprises are thinking up all sorts of ways to make it hard for people to quit, and one of the ways is to require the employee to pay back training fees. The factory director says, "After you began work here, this factory put out money to train you. You now have a skill, and if you think you can just stand up and leave, you will not be allowed to do that. If you are going to go, you will have to pay back your training fees before we'll permit you to resign." In general, these training fees have ranged from one to several thousand yuan which, when added to such things as arranging connections for a self-financed exit, finding an economic guarantor, and paying out introductory fees for leaving the country, as well as buying luggage, travel expenses, and employment service fees, make for a considerable expense to leave the country. On this subject of resigning a position to go abroad to work in low-skill jobs, some leaders have said, "You are unwilling to assume high level positions in China, but would you rather go abroad to live like the 'coolies' of old China, willing to be oppressed and insulted by foreign bosses? You're really good for nothing for us." But contemporary youth care nothing for all this and only want to earn some money. If it's hard for awhile, so be it, and if they run into a string of bad luck, they can just ride it out.

Actually, those set on leaving the country but who have not yet left and those who have already left are both intending to return as soon as possible. As an overseas

student said in a letter from Japan, the current "going abroad for study" is not as good as "going abroad to put aside some money." It is not easy to study, earn money, and live abroad in Japan. Before getting to Japan, one really looks forward to it, but only after getting there can one know how hard it is. Once you are there, you have no choice but to work very hard just to pay the high tuition, rent, living expenses, and the domestic taxes. The Japanese Education Ministry will not acknowledge enrollment in just any Japanese language school for those who come from outside Japan, only those schools that have registered with the Justice Ministry. These schools are legally established and commercially oriented, but do not offer degrees. They are privately run, their tuition is high, and you have to travel to classes by bus, sitting 15 to an 8-person bus, which is just as crowded as the busses in Shanghai. A girl from Shanghai was so crushed between two big guys that she began to cry. And those schools are quite lax about their recruitment of students—they would recruit people with elementary school, junior high school, and high school backgrounds, as well as those who cannot read and college graduates. As a result, some people are willing to pay attention, others are not. Classrooms typically have about one-half or one-third of the students absent, since they have all gone out to work and earn money. As for learning Japanese, they learn it through conversation with the Japanese. Therefore, although in name they have left China in a self-financed study abroad, in reality they have self-financed their exit from China to earn money. They work at washing dishes, sweeping, and as waiters, even as corpse bearers, all the things that Japanese are unwilling to do. We need not discuss their positions in colleges, for many have developed fine skills at sweeping and cleaning out toilets, for which the Japanese pay less than they would pay Japanese for the same work. Therefore, it is said that Chinese college students go to Japan to become sanitation workers, that the national morale is slipping, and that this is an embarrassment to the mother country. There are various attitudes among the elders of Japan in regard to Chinese college students doing such dirty and tiring work. Some are sympathetic, some look upon it quite coldly, and others look down on the students. Anyway, among those in Japan who self-financed their way to Japan and managed to "put away some money," there are all sorts of mixed feelings: salty, acidic, bitter, hot, and sweet. There are those who cannot stand it, and even those who have killed themselves. There are occasionally reports of suicides by Chinese students in Japan in the Japanese YOMIURI SHIMBUN, and when the elders of Japan see these, they moan and cry a little. The dream of "running to heaven when the family fortune is lost" has led to one tragedy after another.

According to what one Shanghai youth said at a meeting in Tokyo, they listen to tapes, the comic dialogues of Ma Ji and the "Clouds of the Old Homeland" by Fei Xiang, then start to laugh and end up crying. Some say that the streets of Tokyo are uneven, while the streets of Shanghai are smooth and glossy, that the winding pathways of

Tokyo cannot match the broad avenues of Tiananmen in Beijing; that Japanese bosses are stingy old skinflints, not like the friendly, sympathetic people in China. So it is that after a session of laughing and crying, and an eventual singing of the song, "The Great Knife Cuts Toward the Gate of the Ghost," and more raucous laughter, they are finally ready to once again bow to their Japanese bosses on the morrow and say a few more "Hai's" (Japanese for "yes, sir"), their hearts a little off-pace.

Among the young people going to Japan from Shanghai are calligraphers, artists, martial arts experts, translators, doctors, and engineers, but when they arrive in Japan they generally have a difficult time finding work appropriate to their professions. These youth are in fact skilled persons from China, but here they were doing work they did not care for, and they were willing to sail off to a foreign land to find work they like. The result, then, has been that the work they have found is even worse than what they did in China, the only consolation being that the wages are higher than here. Youth from Shanghai who have left believe that by, leaving China, once they learn another language, they can bring home the foreign currency or high-quality foreign goods for which they have paid with their blood, sweat, and toil, and with a humiliating lifestyle, and that their understanding of the difficulties of making a living is better than if they had eaten from the iron rice bowl, wandering carefree in China, which thus serves to mold a person.

There are Japanese who have good feelings about those Chinese who have gone to Japan to work so hard and to earn money, and there are even those who are quite moved by this experience of hardship abroad, and even more get along well enough together. And Japanese youth and adults both want to make friends with Chinese overseas students and to learn a little Chinese. But to those who have become accustomed to holding an iron rice bowl, to eating well and taking it easy, to doing things casually, and who can treat lightly this going abroad to Japan as an easy way to make money, there is an opposite reaction. Some young people who are dirty and do not wash their clothes, do not dump their trash, are noisy when entering a room, and play their tapes half the night are regularly criticized and reviled by the Japanese. Some landlords just demand that they take back their rent, refusing to rent to them again. The Japanese police also frequently check the papers of Chinese on the streets, and if they did not bring along the papers, will arrest them. This has definitely been harmful to the reputation of China.

Shanghai youth are already quite apprehensive about going to Japan, and as the demands by the Japanese Consulate for entrance get higher, more people are trying to go to Canada and Australia, where the territory is large and there are shortages of skilled persons and labor, and where the two governments have expressed their

welcome, as they are in the process of broadening entrance policies. Therefore, the craze to leave China for study in Japan is shifting toward Canada and Australia.

So why have so many young people been unwilling to be satisfied in China, preferring to cross over to Japan and bow low, enduring hardship? And why are many who have already left now willing to forgo the richer rewards and living conditions abroad to return to China to participate in reconstruction?

The Japanese feel that overseas students from Taiwan and South Korea are mostly unwilling to exert themselves to make a living, but that those from the Chinese mainland constitute quite a contrast in thinking up ways to loaf on the job. This also shows that edification from "there is reason in rebellion" of the Cultural Revolution, together with the fact that people from Shanghai are shrewder, have made them unwilling to go all out in working for their bosses. In taking this spirit of working with an iron rice bowl to Japan from the Chinese enterprises, the Japanese are thus unwilling to employ them, preferring instead to hire overseas students from Taiwan and South Korea. This sort of situation has generated the contradictory sentiment that goes: "those who have not yet left the country think of traveling, while those who have think of going home."

Uncertainty of Youth Reflected in Popular Music Lyrics

40050322 Beijing XIN GUANCHA [NEW OBSERVER]
in Chinese No 2, 25 Jan 89 p 18

[Article by Fan Rongkang 5400 2837 1660: "I Do Not Know"]

[Text] "There's a sun in the sky and a moon in the water; I do not know, I do not know which is the rounder and which is the brighter."

"There's a big tree on top of the mountain and a big tree at the bottom of the mountain; I do not know, I do not know which is the bigger and which is the taller."

These are lyrics?

These are lyrics that are being sung throughout the country.

It appears that the whole reason for this song's popularity lies in the words, "I do not know." The way I hear it, it expresses the confusion and bewilderment of educated youths after arriving in the Great Northern Wasteland, to which they had been sent years ago. Now, even though time has passed and the situation has changed, who has not experienced one kind of confusion or another along the road of life, and who has not been bewildered to one extent or another? In the present era of reform when the new and the old systems, and new and old ideas clash fiercely, there is a great deal of uncertainty. Possibly this is the reason that this song has been all the rage for some

time. If one word were changed to make it, "I know, I can know," and this was repeated over and over like a newspaper editorial that says "this issue should be looked at in this way and not looked at in that way" lest the reader might not understand, I fear no one would want to sing it.

Thus, it seems one might say that contemporary songs are good at conveying an inference; everything doesn't have to be spelled out. You can savor the meaning and understand for yourself.

Songs didn't used to be this way; they were all very explicit. There was nothing ambiguous about, "the broad sword came slashing down on the heads of the devils." The point was very clear in "we are all crack shots; every bullet wipes out an enemy." Nor was there any misunderstanding about "we workers are strong; work is busy every hour of every day." Even love songs about one's darling sketched things rather well, and contained a lot of flowery words and voluptuous phrases that burned one's mouth with the singing. During the time of the Cultural Revolution when the "Chairman Mao quotation songs" contained "truth in every sentence," could there be any failure to understand? Things like "the Cultural Revolution is truly good, truly good," were more like "slogan songs" or "watchword songs," so they couldn't be called songs at all.

Writing a song in those days was a real snap; just fall back on politics and you couldn't go wrong. It was also extremely easy to categorize songs by their political content. There were "national salvation songs," "liberation war songs," and "New China songs." Even love songs could be categorized as "singing about a happy life." Thus, the loading of songs with a political mission was also extremely clear: "sing about the Communist Party," "sing about the New China," and "sing about the First 5-Year Plan," etc.

To continue the analogy, what should be sung about now? Songs in praise of reform, songs in praise of opening to the outside world, and songs in praise of getting rich would all be extremely important. But what with songs going from the explicit to the not so explicit, where will it all end? If one says that the past was a time of danger and disaster for the nation, when new and old China fought a decisive war, one has to understand that now that it is not necessary to be so explicit, it will also be difficult to convince people. Today China is facing the danger of having its sports games registration cancelled, and this is real, yet no one has created a song titled "Struggle To Retain the Ball Registration." Reform and opening to the outside world have a bearing on the

nation's destiny yet no "Reform March" or "Song of Opening to the Outside World" has made an appearance. Even making money—everyone thinks about it, yet no one has written a song titled "Hurry, Hurry, Let's Get Rich." Lyricists nowadays seem too divorced from proletarian politics.

Go back 10 years, and money was the root of all evil that absolutely could not be sung about. On the stage or on the screen, anyone having anything to do with money, and all the old-style bookkeepers were either spies or henchmen, while all the new-style accountants were either secret agents or corrupt people. Even people named Qian [Money] suffered, eight or nine of every 10 of them were cast as villains. With the bringing of order out of chaos during the past several years, dramatists have kept up very closely with the changed situation. They have cudgelled their brains in the service of politics. Those who take the lead in getting rich in stage performances have suddenly changed their identity, each one appearing on stage with an abacus that they stroke a few times. Later they progress to pulling out a calculator and punching a few buttons. The audience shakes its head in disapproval of their superficiality, knowing that this road leads nowhere.

After all, a song titled "Nothing to My Name" became the rage from north to south in the country, but those who liked this song did not necessarily really have nothing to their name. Among them were some little gods of wealth with fat money bags. However, they did not sing, "I was loaded with coin, and you came with me." Instead they sang, "Nothing to My Name." Only when they had nothing to their name was "you came with me" sincere and praiseworthy. Certainly there is a pattern to be found in the appreciation of such songs.

There are also explicit songs. "My family lives on a high slope in the loesslands. The sun moves across the slope to light up my cave and shine on my arms. My ox is with me too." This is a slice of life captured by pen and ink. "No matter how many years have passed, for generation after generation, it has been left to me, left to me an endless singing of songs, and the Huang He flowing beside me." This is a sigh about the heavy steps of history. Of course, all this has to be evoked and savored; the lyrics themselves do not speak directly. The explicit last part implies an artist's conception that is difficult to put into words, and that is also not all that clear. Were it so plain that there was no artistry, then it would be flat and insipid. Can one say that this is the direction that modern lyrics are taking, that they have become free of the shackles of tradition and do not need to be so frank or so revealing?

I do not know; I do not know.

Problems in Readjustment, Reform of Defense Industry

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[Article by Jiang Baoji 5592 1405 4388, Zhang Sheng-wang 1728 0524 2489, and Ji Bing 1213 0365 of the National Defense University's Political and Economics Teaching and Research Office: "Several Problems in the Strategic Readjustment and Structural Reform of the National Defense Industry"]

[Text] The readjustment and structural reform of the national defense industry are important components in the development and structural reform of the national economy. Recently we went to certain localities in remote regions to investigate this problem and also held group discussions with the relevant departments. Now we present several important problems for general discussion.

I. National Defense Industry Is Facing New Problems During the Major Change

After nearly 40 years of construction, China has built a national defense industrial structure with a relatively complete assortment of departments on a definite scale and one that occupies a decisive position in the national economy.

Since the 3d plenum of the 11th CPC Central Committee, and after the party shifted the major thrust of its work to socialist modernization construction, the guiding ideology in national defense construction has caused a strategic change and the national defense industry has been faced with an important strategic readjustment.

The main difficulties currently confronting the national defense industry are: 1) A sharp drop in orders for military products and a serious surplus in production capability. According to a sampling survey carried out in August 1987, the utilization rate of equipment among military industrial enterprises in remote areas was about 30 percent and the utilization rate of high-precision and advanced equipment was even lower. 2) A serious outflow of talented personnel. 3) Because of restrictions imposed by the old structure, it has been difficult for enterprises to change their mode of operation. The national defense industry is a model product economy management system, which is very unsuited to the demands of integrating military and civilian production and the development of a planned commodity economy. 4) Comprehensive economic benefits are low. According to a survey conducted in Chongqing, in the massive change of the military industrial enterprises, 42.1 percent showed relatively poor economic benefits and the comprehensive economic benefits of the military industrial enterprises were, on average, 28.5 percent lower than other industrial enterprises of the city. 5) About 50

percent of the military industrial enterprises still have not found a mainstay civilian item to produce and are in dire straits, with many of them having to depend on subsidies.

The basic way to solve the above-mentioned problems is to vigorously carry out the strategic readjustment of the national defense industry and deepen the structural reform.

II. The Strategic Readjustment Problem of the National Defense Industry

The strategic readjustment of the national defense industry, particularly large industrial enterprises in remote areas, besides the readjustment of their overall arrangement points mainly to the strategic readjustment of the general scale and structure of products of the national defense industry.

A. Ensuring the production of military goods is the prerequisite for readjusting the national defense industry.

Engaging in the production of military goods is the basic function of the national defense industry. Although the armed forces have been reduced by 1 million people and a large cut has been made in the volume of its equipment, the quality demanded of the armed forces has increased to an even higher level. Therefore, readjustment must be carried out in the national defense industry under the precondition of ensuring the mission of military goods production.

1. It is necessary to reduce the scientific research capacity of military industrial production. A "huge structure but with a low level" is the prominent problem of China's national defense industry. Originally the large scale of military industrial production was suited to an imminent war situation and exceeded the bearing capacity of the national economy. Among the various departments of the military industry a serious state of redundant scientific research on production of the same, or similar, kinds of military goods was created. The internal production scale in the various military industry departments is also overly large. Because the frontline is too long and the setup too large, the limited investment in scientific research production for military industries and the limited purchases of military goods, although expended like "sprinkling pepper," could not provide orders for military goods for more than 50 percent of the enterprises. Even when units received orders for military goods, more than 50 percent of their production capacity remained idle. The huge size of the military production setup not only is one of the direct causes of the low level of the military industry products but is also an unbearable burden on the national economy. Cutting back on the military industries' production capacity is the first and most urgent task to be carried out. Under the prerequisites of protecting against the possibility of a limited war and the emergence of sudden situations and of ensuring advanced research, we believe that one-fifth

to one-fourth of the existing military industry production capacity should be preserved and one-third to one-half of the scientific research capacity should be retained. The military industry production guideline of a "small setup, but with a high level," "little production, but a lot of research and development," and production of a few but excellent products should be realized.

2. It is necessary to establish a specially coordinated system of military industry production. For a long time, the national defense industry has been separated from the national economy's "large and comprehensive" closed-door type production system; between the various military industry departments, separate systems have formed and there is no cooperation or liaison; inside the military industrial enterprises or base areas, the entire production process is completed in the plants, and the enterprises have formed social organs of their own, creating an enclave of military industrial enterprises in the local economy.

Cutting back on the military industry's production capacity should not be interpreted as purely and solely shrinking the scale, but for quality readjustment on the basis of production socialization and establishment of a specially coordinated military industry production system. The mechanical processing, advanced processing, and production of essential spare parts and components of military goods must involve the basic departments of the national economy. Production of coordinated products, aside from keeping a small number of backbone enterprises, must be rooted in civilian industries; military industry enterprises should take as their major work the keeping and maintaining of a number of general assembly plants that merge scientific research and production into one body. We must grasp well general regulations, product planning, and general assembly work, and we must utilize high-level scientific research and production measures. Only by setting up a specially coordinated military industry production system can production of military goods possess relatively good flexibility and realize the peacetime military industry production guideline of "small setup, but at a high level."

3. It is necessary to make rational arrangements for the overall arrangement of military industrial productive forces. During the First 5-Year Plan military industrial enterprises were established mainly in the northeast, north, and east regions. During the Third 5-Year Plan and Fourth 5-Year Plan, projects similar to, or nearly similar to, the original enterprises and units were again established in the remote areas. At present, the production and scientific research capacity of military industries in remote areas is 50 percent of the national military industry. Due to the redundant distribution, when cutting back production capacity of the military industry, the problem of retaining or abolishing certain military industrial enterprises in a locality will inevitably arise. The military industrial enterprises of the frontline are established mostly in large cities or towns or their

suburbs, where there are communication facilities, complete basic social facilities, news and information services that are fast and large, and where the cost of producing military goods is low. The third-line military industries are located mostly in isolated mountain regions, are widely scattered, have inconvenient communications, and inadequate news and information facilities; they also lack cities and towns to give support, and have the heavy burden of providing social activities. The cost of producing military goods in these areas is relatively high.

Regarding the problem of retaining or abolishing military industrial enterprises, a rather serious conflict is found between the overall arrangement of the military industry's productive forces and the matter of economic benefits. We believe, if viewed from the aspect of national defense strategy, the geographical location of military industries should occupy top priority, because of the relation they have to the safety and existence of the nation and the armed forces. In deciding whether to retain or abolish the military industrial enterprises in the first line and third line that are the same, or nearly the same, the third line enterprises should be given first consideration. In readjusting the strategy of national defense of the thirdline military industries, the geographical location of regional productive forces should also be rationally arranged. Enterprises located too deep in the mountainous areas should be moved, converted to production of other goods, or stopped altogether so that production can be adequately centralized and their weak points can be changed into strong points.

4. It is necessary to rationally readjust the prices of military goods. For a long time, the prices of military goods have followed an "identical system" for several tens of years (production cost plus 5 percent profit). With the increase in the prices of raw materials and the increase in labor cost, the enterprises' economic benefits from producing military goods are obviously lower than those from civilian goods, particularly in the case of coordinating products for the military industry; the input is three times that of civilian goods but the output is only 50 percent of that for civilian goods, there is no way to compensate the production expenses. The low prices of military goods brings losses to the production of military goods and has become a general phenomenon. This is disadvantageous to the development of the enterprises and to the stability of the basic production ranks. We should quickly readjust the prices of military goods and make the economic benefits from production of military goods no lower than those from the production of civilian goods.

B. Development of civilian goods is the central problem in readjustment of the national defense industry.

The most important work in the readjustment of the strategy of the national defense industry is readjustment of the product structure, shifting the surplus military industrial production capacity to development of civilian goods, integration of the military-civilian production

system, and integration of peacetime and wartime production. In recent years, the military industrial enterprises have developed a number of products needed in both the domestic and foreign markets and the speed of the growth of the production value of the civilian goods has also been rather rapid. However, compared with the actual economic strength of the military industrial enterprises the disparity is still rather great; for example, the value of fixed assets: the average level of civilian industries in the whole country is 128 percent but the average of the thirdline military industrial enterprises is only 50 percent. If computed at the national average, the production capacity of thirdline military industry that has not been utilized is more than 50 percent. At the same time, about half of the military industrial enterprises lack mainstay civilian articles while some are still looking for "rice to put in the pot," those large and medium-size enterprises which have already found civilian articles as mainstays (articles produced in relatively large quantities with problems of raw materials, spare parts, and sales market already solved), still need to develop second and third mainstay civilian articles.

The development direction of civilian articles must be principally restricted by two factors; one is market demand and the other is the technical structure of the enterprise. In developing civilian articles the military industrial enterprises' best bet would be to have both unified.

Generally speaking, the technological composition of the national defense industry represents the state's most advanced technological level. This special feature is especially prominent in the thirdline military industry. Seen from the hardware system, the technical equipment owned by the thirdline military industry is superior to that of civilian industrial enterprises in quantity, variety, and precision, and the industry has a large quantity of precision equipment and important scientific and technological methods for conducting tests and experiments. Seen from the software system, 12 percent of the staff members and workers of the thirdline military industry are technicians; this is much higher than the 3-percent level in enterprises producing articles for civilian use. Moreover, there is a more or less complete variety of specialized categories and the technological superiority cannot be matched by the enterprises that produce civilian articles.

In the current development of civilian articles, the military industrial enterprises' technological superiority has not been fully utilized. Only in the case of a small number of enterprises does the civilian article serving as the mainstay approach or come close to matching the technological capability of the enterprises themselves. Judged from the standard of market guidance, the majority of the current mainstay civilian articles that have been opened up are producing benefits, and have solved the military industrial enterprises' problems of a sudden drop in jobs in ordnance production and the pressing need to fight for their survival, which is completely in

accordance with the regulations of the commodity economy. But measuring with the yardstick technological guidance, the level of technology of the military industrial enterprises has slipped and is not advantageous to utilizing the superiority of the military industrial enterprises. For example, although the output value of the civilian articles produced by the thirdline military industrial system has exceeded the output value of the military goods, the transfer of their existing volume of technology has not reached 30 percent and there has been a simultaneous growth in output value, with a portion of the technological strength remaining idle. Although this kind of production of civilian articles has fairly good economic benefits, the price paid is that of sacrificing the storage volume of the originally high technological strength of the military industrial enterprises. Furthermore, large-scale entry into production of certain durable consumer goods by military industrial enterprises makes the tendency toward similarity in the industrial structure all the more obvious. However, if the military industrial enterprises wish to produce highly technical products, first, they will have to carry out technical transformation of the original enterprises, this will require investments during a time when the state's financial power is extremely limited; second, since the production period is rather long, many of the enterprises will be unable to survive during the interval; and third, at this time the domestic market demand for many of the products is not large, making it difficult to produce in volume. Hence, in order to solve the contradictions between market guidance and technological guidance in the course of the military industrial enterprises' developing production of civilian articles, it is necessary to correctly handle the relationships between market regulation and planned regulation. The state should start from the development strategy of China's economy and carry out overall planning and make comprehensive arrangements.

C. State policy support is the key to smoothly realizing the readjustment of the national defense industry.

Readjustment of the national defense industry requires the support of state funds, but at the moment it is difficult for the state to provide a large amount of funds. What should be done? The answer is support from state policy and smoothing out relations between the various sides to arouse their enthusiasm, thereby smoothly realizing the readjustment mission. Both the state and the local governments should adopt policies to provide preferred treatment. Our estimate is that these policies should principally comprise the following 10 points.

1. Relocation. Enterprises that decide to relocate their place of operations should be provided with adequate funds for this purpose by the state. The local governments of the areas to which the enterprises are moving should give them suitable help in land acquisition, household registration, and so on. When the state or the department in charge turns over to localities those enterprises that are operating at a loss but that are suitable for producing civilian articles, it should turn over, along

with the enterprise, an adequate amount of "compensation" and not impose a burden on the localities. The localities should accept the enterprises enthusiastically and help them to perform well in production and to overcome the difficulties during the transitional period.

2. Setting up projects. New civilian article projects which have gone through scientific assessment should be given priority consideration by localities and the relevant industries and trades. They should also give them necessary support in funds, foreign exchange, raw materials, and technology, or actively develop for them lateral economic associations to spur them into production as soon as possible to create more wealth for society.

3. Funds. Regarding funds needed by the new projects, after the enterprises have done their utmost to raise funds by themselves, the state, departments concerned, and localities should greatly assist in making up the amount still lacking and give appropriate consideration to interest rates when and if loans are needed. Since the enterprises were originally engaged in producing military articles, the amount of circulating funds required was relatively small, but now the amount of circulating funds should be fixed according to the production scale of the civilian articles. If necessary, provision for loans should be made convenient. In the event that the original production and assembly lines for military goods stop production, but are not dismantled, the state should provide the cost of maintenance to keep the lines in good working order.

4. Raw materials and energy. In the case of civilian articles produced by the military industrial enterprises being incorporated into the plans of the departments and localities, the departments and the localities should solve the problems in supply of needed materials and energy in an overall manner. Regarding production of other civilian articles not incorporated into the plans, the materials and energy departments should actively help the military industrial enterprises to foster and expand supply channels and supply the necessary news, information, and services.

5. Taxes. The state and local governments should grant tax exemptions for a certain period of time to civilian articles newly opened up by the enterprises, but should specify that the reduced or exempted portion of taxes should be used to develop production.

6. Prices. Regarding new products for civilian use developed by the enterprises, in addition to giving appropriate consideration on prices of the allocated raw materials, the state should also allow the enterprises to set prices or let industry and commerce cooperatively negotiate to set prices during the trial marketing period of the new products. Appropriate readjustment should likewise be made on military goods if the cost of production has increased due to the increase in the price of raw materials.

7. Foreign trade. It is necessary to expand the right of enterprises in the national defense industry to export civilian articles and allow them to enjoy the same rights and privileges accorded to the coastal regions and even to the special economic zones. In the case of national defense industry enterprises that export military goods, the enterprises should be allowed to take part in negotiations with the foreign merchants to enable the enterprises to participate fully in the negotiations and to acquire an understanding of foreign economy, technology, and news and information. The ratio of the retention of foreign exchange earnings by the enterprises should be appropriately increased to encourage the enterprises to heighten their production enthusiasm.

8. Technical transformation. Regarding the big and important technical reform projects in civilian article production in the national defense industrial enterprises, the enterprises should tap their own hidden potentials, and the departments in charge should supply the necessary aid in funds and technology. The banks should grant low interest or interest-free loans to the enterprises for a certain period of time.

9. Talented personnel. The state, departments in charge, and localities should formulate specific policies suited to the thirdline military industries. These organs should not only solve the problem of "the returning old, utilizing the middle aged, and the young people leaving," but also solve the problem of "there being no successor." In the treatment of staff members, workers, and technicians of military industry enterprises located in the thirdline hardship areas, appropriate subsidies should be given.

10. Social services. Military industrial enterprises in the third line, particularly those located in remote or inaccessible areas, have a heavy social burden and this burden will become heavier as time passes. In addition, the enterprises have constantly complained that in recent years society has imposed various kinds of levies and requests for contributions on enterprises and the local peasants have been taking unfair advantage of the state (enterprises). Therefore, state and local governments should formulate more specific and stricter statutes to protect the enterprises' legitimate rights and interests, and do their utmost to reduce the various levies so the social burden on the enterprises will be reduced. At present the national defense industry is in a difficult period. If the state and local governments grant military industrial enterprises certain preferential policies to guarantee the completion of the readjustment mission, it would not protect the backward elements but would be a macroeconomic measure designed to put the strong points of the military industry enterprises into full play. We should treat this problem on a wider scope and use even greater foresight when viewing it.

III. Reform of the National Defense Industry's Structure

The strategic readjustment and structural reform of the national defense industry are closely related to each other. Readjustment is for the purpose of creating a

relatively better material condition for the reform, while the purpose of reform is to ensure smooth progress in readjustment in the predetermined strategic direction. Currently, the reform of the military industrial enterprises has fallen behind that of the local enterprises. For the next 2 years, while emphasizing handling major points and consolidating general order as the large background, we should intensify reform of the military industrial enterprises in order to solve the various problems of antipathy between industries and trades, division of departments and localities, closing to the outside world, and the enterprises eating from the state's "big pot." We should strengthen the military industrial enterprises' autonomous power in management and arouse the enthusiasm of the military industry enterprises and their staff members and workers.

The establishment of a national defense industry structure that is suited to China's national conditions is the general target of the military industrial enterprise structure reform. Specifically, the structure should possess the basic special features listed below.

1. Take the theories of a planned commodity economy as guidance. The national defense industry must establish a mechanism suited to the commodity economy, such as a price mechanism, a competitive mechanism, and a market mechanism, and do a good job of combining micro-economic invigoration and macroeconomic control. Naturally, the national defense industry's production and circulation have special features that are different from commodity production and circulation (such as stronger planning, imbalanced production, and so forth). Therefore, in management structure it should also be different from other production and circulation departments.

2. Implement the principle of "military-civilian integration, peacetime-wartime integration." China is a big socialist nation, its sea and land borders are very long, but its national defense industry is comparatively backward and the level of its economic development is fairly low. Although another world war or an all-out attack on our country probably will not occur for a very long time, a limited war may erupt at any moment. Therefore, the reform of the national defense industry structure must implement the principle of "military-civilian integration and peacetime-wartime integration" and also employ the tactic of making the people militarily conscious. Military industrial production must attain the objective of "small structures but high levels." The industry should never be restricted to just producing items of a single nature, but must adopt the principle of military-civilian integration. Only in this way can we ensure winning small and limited wars while following and serving the overall situation of national economy construction.

3. Implement the principle of opening up internally and externally. The new structure must help in introducing foreign capital, advanced technology, and equipment, and be beneficial to developing foreign trade. It should

show its important and promotional role in opening up domestic and external markets and play an important role in the modernization construction of the armed forces.

4. Military industrial enterprises should become economic entities that are autonomously run and are solely responsible for their own profits and losses, are relatively independent commodity producers, and operators that set up an operation mechanism suited to the commodity economy.

Based on the current situation in the national defense industry structure, to realize the above-mentioned pattern and the overall objective, we must carry it out in two steps (two stages). Below we suggest our initial ideas stressing the line of thought on structural reform in the readjustment period of the national defense industry.

During the readjustment period of the national defense industry (estimated to last until the final stage of the Eighth 5-Year Plan), a transitional form of the management structure for the national defense industry should be established. This transitional form must be beneficial to ensuring the smooth completion of the readjustment and transformation missions of the national defense industry and must lay a good foundation for a structure of the national defense industry that is adaptable to China's conditions. Based on this, we propose:

1. At present, the People's Liberation Army [PLA] General Staff Department, General Logistics Department, National Defense Science, Technology and Industry Commission, and the State Council are running several elements in the third line separately. Taking charge of the national defense industry, these elements should be united into one unit and an organization should be set up to have general control of the national defense industry. This organization would be under the leadership of both the State Council and the Central Military Commission. It should concentrate primarily on studying the development strategy of the entire national defense industry, formulate policies and guidelines for the long-term development plans and reform of the structure, coordinate relations between various sides, and take charge of macroeconomic guidance and supervision. For the present, as entrusted by the State Council and the Central Military Commission, it should first grasp well the readjustment work of the national defense industry. Based on scientific discussions and assessment, it should use instructions from the State Council and Central Military Commission to quickly determine the existing three patterns of military-civilian integration in the national defense industry: The combined military-civilian pattern with military as the main force; the combined military-civilian pattern with civilian as the main force; and the enterprise wholly producing articles for civilian use pattern. It should rapidly determine the enterprises that will continue to be retained and those that will be turned over to the localities, cut down the scale of military industrial production, and break the

huge military industry structure. For these purposes, it should formulate policies and regulations to coordinate the development of civilian articles and the delegation of enterprises to ensure that these enterprises can smoothly shift to producing civilian articles and transfer to localities. Simultaneously, steps should be taken to reform the local economic structure, and based on certain special features of the national defense industry, to formulate specific programs for structural reform of the enterprises of the national defense industry and ensure their gradual shifting to the operational track of a planned commodity economy.

2. The various military industry departments within the State Council, based on the shift in their functions and with the approval of the State Council, should form a corresponding general corporation with branch companies to be established in provinces (cities) in which the national defense industry's work is fairly concentrated. The general corporation is an economic entity in which there is military-civilian integration, industry-trade integration, and scientific research-production integration; it has independent autonomy, and is also solely responsible for its own profits and losses. It can be of two types, one takes the civilian as the center but has a military presence while the other takes the military as the center but also produces civilian articles. The branch companies are organs dispatched by the general corporation. During the readjustment period, the general corporation and the branch companies have the same functions as an economic entity, they are responsible for the specific affairs of production and operation of the business and for conducting contracting work with the government (or through the departments). As administrative organs they are responsible (entrusted by the department) with the readjustment work of the military industrial enterprises within the system. In performing the readjustment tasks of the military industrial enterprises, the general corporation and the branch companies should follow the related policies and regulations as prescribed by the State Council and the Central Military Commission in conjunction with the specific conditions of the respective departments to make sure that the tasks can be accomplished within the prescribed time limit. After the general corporation and branch companies have completed the readjustment duties for the subordinate military industrial enterprises, their administrative functions will be dissolved and they will become completely economic elements. At this time, their main tasks will be to unify the management strategies, develop plans, and directly contract for the military industry's production and scientific research tasks assigned them by the state.

3. Provinces (cities) in remote areas should form offices for national defense industry readjustment which are the transitional administrative organs for the province (or city), and which will coordinate tasks with the military

industry departments' general corporation and branch companies located in their province (city), so the readjustment work of the national defense industry can be completed within the designated time period. They should also abide by the relevant policies and regulations prescribed by the State Council and the Central Military Commission, along with the concrete conditions of the respective province (city), and guarantee that the readjustment tasks will be completed within a stated period of time. After the completion of these tasks they will be dissolved. The problems of military industrial production during the readjustment period will not be the concern of the national defense industry readjustment offices of the province (city), but should be the responsibility of the general corporation and branch companies to handle these problems.

4. Whether existing military industrial enterprises are to be retained or turned over to the localities should be gradually determined during the reform stage. Those retained can be directly subordinate to the general corporation or the branch companies and become, in name and in fact, commodity producers and operators. Units using military goods and units producing military goods will use the method of placing orders by contract to establish the commodity economic relationships between them.

5. Development of lateral economic associations. With backbone enterprises and well-known products being used to form the dragon head and to gradually organize an enterprise group or an enterprise syndicate, the pattern of being large and comprehensive and small but comprehensive should be changed. We should promote rational circulation and renewed composition of the various kinds of essential production elements, and strengthen the organic liaison inside the military industrial enterprises and the relationship between them and the national economy.

6. Step up the pace of opening up to the outside world, expand the power of large and medium-sized military industry enterprises and enterprise groups to develop an externally oriented economy, and set up a number of product export bases using electrical machinery goods and military products as the dragon head; at the same time vigorously import foreign capital and advanced technology to create conditions for establishing a national defense industry structure opening up to the outside world.

7. Gradually change military industrial enterprises from producing only military goods to enterprises producing both military goods and civilian articles, and ones that are available for both military and civilian uses, thereby using macroeconomics to establish the initial foundation for a unified military-civilian industrial structure.